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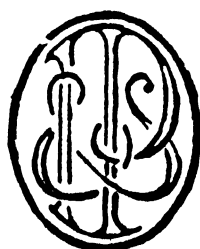
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Incorporated Accountant

PART I



LONDON

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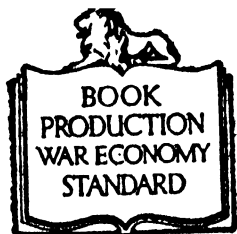
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**THIS BOOK IS PRODUCED IN
COMPLETE CONFORMITY WITH THE
AUTHORIZED ECONOMY STANDARDS**

PREFACE

IN industrial areas it is often found that a substantial number of commercial students are employed in manufacturing concerns or in building and allied trades ; and the purpose of this book is to provide a course of instruction in the groundwork of accounting that will be as suitable for such students as it will for those engaged in general commercial work. It is hoped that the book may also be helpful to any trade or technical students who desire an elementary knowledge of costing in connection with their work.

While the authors realize that the book represents another addition to the long list of textbooks on this subject, they hope it will be justified if it enables students to learn something about cost accounting during the first years of their studies. Some students may wish to begin the study of this subject as soon as possible. While, however, it is competent for them to proceed to Part III without having previously studied Part II, it is essential that they should get a thorough knowledge of the subject-matter of Part I before attempting to pass on to Part III.

In Part I, the approach to general accounting is made through the Ledger. The same method is used for costing in order to give the student a preliminary bird's-eye view of the field of costing he has to study. By means of simple examples at the beginning, this method also enables him to compare the results of costing with the appropriate financial records and so show the close connection between the two systems of accounts. The subsidiary costing day books are then conveniently dealt with at a later stage, in the same way as in general accounting.

The authors wish to thank the London Chamber of Commerce and the Royal Society of Arts for permitting them to include a number of examination questions among the various supplementary exercises ; and also to the McGraw-Hill Publishing Coy., Ltd., for kindly allowing them to use the method of scheduling indirect expenses that is illustrated in their textbook, *Manufacturing Costs and Accounts* (Church).

F. A. G.
W. W.

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CHAPTER I

THE Double-entry System—Capital—Book-keeping to Trial Balance—Exercises.

The Double-entry System. No business of any size or importance can be run satisfactorily for any length of time without the aid of proper records. A well-ordered system of accounts can help a proprietor to conduct the daily routine of his business more efficiently than he otherwise could do and, in addition, enable him to find out, at any time, whether he is running his business on profitable or unprofitable lines.

Businesses are of many kinds, from the simple forms of retail trading to the more complex forms like manufacturing goods from raw materials and then selling the finished products to wholesalers, retailers, or direct to the general public. Whatever kind of business is carried on, however, the object in view is the same : that is, to sell goods at such prices and in such quantities as will give the owner a satisfactory profit or income after he has paid all his business expenses.

The object of book-keeping, therefore, is to provide a record of all business dealings so that the smallest details are readily available for inspection, and, also, when desired, to give the owner a bird's-eye view of the progress of his business as a whole. In the opening chapters, it will be advisable to deal with the simplest forms of business—those of retail trading—so that the student may get a clear idea of the main purposes of double-entry book-keeping.

Retail trading consists of buying goods and selling them to the general public. An article is bought by a retailer for, say, 12s. and sold for 18s. The difference of 6s. will be the retailer's profit, unless there are expenses connected with the sale, like transport, packing, etc., when it will be less than 6s. If trading is to be profitable over any length of time it must be repetitive, and the more the owner can repeat the process of buying and selling, the more likely he is, other things being equal, to make correspondingly bigger profits.

Acts like buying and selling goods, receiving and paying cash, etc., are known as *transactions*. This word consists of *trans*, meaning "across," and *action*, so that a transaction

is an act in which the effect passes from one person to another. Suppose, for example, that on 1st January, J. Watson sold goods to T. Brown for £20, and that the goods were not paid for at the time of sale.

Obviously, J. Watson *gave* (i.e. sold) the goods and T. Brown *received* (i.e. purchased) them. This two-fold nature of business transactions (the *giver* and the *receiver*) is the basis of double-entry book-keeping, and the system makes use of this principle of balance between giver and receiver to ensure, as far as possible, the accuracy of its records.

There must always be a giver if there is to be a receiver, so that *a transaction can never be one-sided only*. As the same value in goods or money passes from the giver to the receiver, it follows that the amount recorded by the giver must balance the amount recorded by the receiver. *As this must be so for all transactions*, it follows that book-keeping records can be kept in a state of balance, and we shall proceed to show how records can be drawn up to enable this to be done.

In order to have a complete record of any transaction, such as the above, by double-entry book-keeping, we shall have to record the following facts—

- (1) that J. Watson was the giver or seller ;
- (2) that T. Brown was the receiver or purchaser ;
- (3) the date on which the transaction took place ;
- (4) the value of the transaction—in this case, £20.

In considering the best method of setting out these four facts we must bear in mind that Watson will also be selling to other customers, so that this record will have to be set out in such a way as will allow similar transactions to be added to it. If each side of the transaction is shown separately, this object will be achieved, e.g.—

Jan. 1	T. Brown received goods from J. Watson, valued .	£ 20	Jan. 1	J. Watson gave goods to T. Brown, valued .	£ 20
--------	--	---------	--------	--	---------

We must also remember, however, that Watson will be *receiving* goods and money from other people and that Brown will be *giving* (or paying) money to Watson for the goods he purchased. Hence each of the two records above *will have to be set out separately*—not side by side—so as to allow for

transactions of the opposite kind to be recorded. This can be done by dividing a page vertically into two parts and giving each person an individual record. Each record will be constructed so that the left-hand side is reserved for values of what is *received* and the right-hand side for values of what is *given*. This arrangement shows quite clearly the two-fold nature of a transaction, because the two entries relating to each transaction are shown on opposite sides under the respective records of giver and receiver.

The record that is kept in respect of a person or thing is known as *an account* (abbreviated to a/c). In book-keeping, the *left-hand* side of a page is used to record the *receiving* part of any transaction and the *right-hand* side to record the *giving* part. The transaction between Watson and Brown is recorded by double-entry book-keeping in the two following accounts—

*Receiving side**Giving side*

Date	Particulars	£	Date	Particulars	£
------	-------------	---	------	-------------	---

J. WATSON'S A/c

			Jan. 1	Gave goods to T. Brown	£ 20
--	--	--	--------	------------------------	------

T. BROWN'S A/c

Jan. 1	Received goods from J. Watson.	£ 20			
--------	--------------------------------	------	--	--	--

As will be seen, these entries are *self-balancing* and this principle of balance applies to the record of every transaction in the books of account.

We can illustrate the method by another example—

1 Jan. J. Watson sold goods to T. Brown, £30
 3 „ J. Watson sold goods to T. Atkins, £15
 15 „ T. Brown sent cash to J. Watson, £20
 17 „ T. Atkins sent cash to J. Watson, £15

*Receiving side**Giving side*

Date	Particulars	£	Date	Particulars	£
J. WATSON'S A/c					
Jan. 15	Cash from T. Brown	£ 20	Jan. 1	Goods to T. Brown	£ 30
„ 17	Cash from T. Atkins	15	„ 3	Goods to T. Atkins	15
T. BROWN'S A/c					
Jan. 1	Goods from J. Watson . . .	£ 30	Jan. 15	Cash to J. Watson	£ 20
T. ATKINS'S A/c					
Jan. 3	Goods from J. Watson . . .	£ 15	Jan. 17	Cash to J. Watson	£ 15

The above accounts as set out in this simple form show the "double-entry" which is made for each transaction. It will be seen that Watson sold goods to the value of £45 and received £35 in part payment. T. Brown is a debtor for £10 and T. Atkins settled his account with Watson.

It will be noted that the goods sold by Watson were *not* paid for at the time of sale. Sales made under such conditions are known as *credit sales*. Conversely, Brown and Atkins *purchased them on credit* from J. Watson, so that the transactions, from their point of view, would be called credit purchases.

If goods are sold and paid for *at the time of sale* the transaction is known as a *cash sale* to the seller and, of course, a *cash purchase* to the buyer. In this chapter, the illustrations and exercises will deal with *credit* transactions only so far as the purchase and sale of goods are concerned.

The book in which such accounts are kept is called *the Ledger*. Each page or folio of the Ledger is ruled, as already shown, to indicate the receiving and giving sides, and it is usual for the abbreviations *Dr.* (for debit) to be put at the top of the receiving side, and *Cr.* (for credit) to be put at the top of the giving side, *to show the respective sides*. No further meaning needs to be attached to these abbreviations for the present.

There are auxiliary books, in addition to the Ledger, but their use is confined solely to *assembling* transactions of *similar* kinds into *groups*, so that they can be more conveniently dealt with in the Ledger in groups, instead of singly. Such books are used for dealing with everyday transactions like credit purchases and credit sales. All we need say at this stage, however, is that the Ledger is the one book in which *all* business transactions have to be recorded either singly or in groups so as to make it a self-contained reference book for the whole of the activities of the business.

It will now be necessary to describe the kind of transaction that has to be recorded in a person's business books when he starts a business.

Capital. Let us suppose that J. Watson, who has a knowledge of the boot and shoe trade, decides to become a leather merchant, and that he has saved £2,000 in cash. We will also suppose he needs £1,500 of this private wealth to start his business.

Wealth that is used for the purpose of earning more wealth (i.e. earning an income) is known as *Capital*; so that the £1,500 will become his *business capital*. Although he may have other business activities, he will conduct his leather business as a *separate unit*, and the records will be kept quite separately from those of any other enterprise in which he may be interested; otherwise he will not be able to maintain accurate records of his leather business.

The first *business* transaction takes place when Watson gives £1,500 of his wealth *to his business* where it is to be used as *capital*. As this is in the form of *cash*, it will be received by the *business cash box*. The business will keep a separate account of all the cash it receives and pays out in the course of trading, and so a *business cash a/c* will be kept for the purpose.

If the transaction takes place on 1st January, the double-entry record in *Watson's business Ledger* will be as follows—

Dr.		J. WATSON'S BUSINESS CAPITAL A/c			Cr.
			Jan. 1	Gave to Business Cash Box .	£ 1,500

Dr.		BUSINESS CASH A/c				Cr.
Jan. 1	Received from J. Watson as business capital	£	1,500			

The student may wonder why £1,500 should be recorded on the giving side of the Business Capital A/c when there is nothing in that account to show that it originally formed part of his £2,000 private wealth.

The explanation is that no useful purpose would be served by recording particulars of his *private* wealth in his *business* books, as he would have other private records for that purpose.

An account of his *private* wealth, *before commencing business*, could be prepared in his private records by double-entry book-keeping, in two balance accounts, as follows—

Dr.		J. WATSON'S WEALTH A/c				Cr.
				Total amount of cash	£	2,000

Dr.		J. WATSON'S CASH A/c				Cr.
	Total wealth	£	2,000			

The above entries do not indicate that a transaction has taken place, but merely show that his wealth amounted to £2,000 and that it was all in the form of *cash*. If it were in any other form—property, for example—then the second account would be headed “Watson’s Property A/c.”

When £1,500 of this wealth is given to the business, a transaction has taken place, as already explained. This transaction can be understood by breaking *each* of the above accounts into *two* parts so as to show, on the one hand, the amount of his remaining wealth (and private cash) and, on the other hand, the amount of his business capital (and the amount of *cash* which comprises the capital).

Dr. (1a) J. WATSON'S PRIVATE WEALTH A/c				Cr.	
			Jan. 1	Private cash	£ 500
Dr. (1b) J. WATSON'S BUSINESS CAPITAL A/c				Cr.	
			Jan. 1	Business cash	£ 1,500
Dr. (2a) PRIVATE CASH A/c				Cr.	
Jan. 1	Private wealth	£ 500			
Dr. (2b) BUSINESS CASH A/c				Cr.	
Jan. 1	Business capital	£ 1,500			

Only the accounts numbered (1b) and (2b) are *business* accounts and so are the only ones that need appear in the *business* Ledger.

Book-keeping to Trial Balance. Now that Watson has started business and has made the two Ledger entries to show this, he will want to begin trading. As previously mentioned, he will try to buy and sell as much leather as he can, and as often as possible, in order to make his business profitable.

Before we give an exercise to illustrate a period of trading it will be as well to repeat that for every transaction there must be a giver and receiver, and that the two entries for these must be made on *opposite* sides of the two accounts concerned.

The giver and the receiver are *not* always represented by personal accounts, as shown by the following transaction.

Watson's business pays £20 in cash to Jackson. In the first place we know that it is *not* Watson, but the business that pays the cash, and *that the part of the business which does so is the cash box*. Hence, when cash is paid out or received, it is the *Cash a/c* which is the giver or the receiver. It may be clearer, perhaps, to think of cash transactions as being performed by the cashier, so as to give them a personal aspect.

In the same way, leather will be kept in a *store*, and taken care of by a storeman. When the business sells or buys leather, it is really the *leather store* that gives or receives the leather. Hence, any transaction for the purchase or sale of leather will be recorded on the proper side of the Leather a/c, so as to show whether the leather was dispatched or received, and on the *opposite* side of some other account to show how the transaction affected that person or thing concerned.

The next point is to ensure that entries are correctly set out in the Ledger accounts concerned. Let us take, for example, the following transaction—

3 Jan.: Watson's business sold leather to T. Jenkins, value £20. We know that this was a *credit* sale because no payment was made at the time of sale.

In order to record this transaction correctly *in Watson's books*, the two questions to ask one's self are—

(1) Who or what was the giver?

(2) Who or what was the receiver?

In regard to No. (1), it is obvious that the *leather store* parted with the leather and was, therefore, the giver. When the storeman dispatches the leather a note will be made of *where it is going*, and so the entry on the giving side of the Leather Store a/c will be—

3 Jan.: Sent leather to Jenkins, £20.

Regarding No. (2), Jenkins receives the leather and so the entry on the receiving side of Jenkins's account will read—

3 Jan.: Leather received *from Leather Store*, £20.

The entries of these two accounts in Watson's Ledger show how the two sides of the transaction are recorded—

LEATHER STORE A/c

Dr.	Particulars		Particulars	Cr.
		Jan. 3	Leather to Jenkins	£ 20

Dr.	T. JENKINS A/c		Cr.
Jan. 3	Leather Store (leather from)	£ 20	

In practice, it is usual to shorten the narration that is entered in the "particulars" column. In the Leather Store a/c, for example, it would be quite sufficient to enter "Jenkins" instead of "Leather to Jenkins," because purchases and sales of leather must be recorded in a *Leather Store a/c*; and the fact that Jenkins's name appears on the giving side of this account shows that it was leather—and not cash, etc.—that was sent to him.

We will now suppose that the following business was done during the first month of Watson's trading and show how these transactions are entered in the business Ledger.

In this exercise, the *particulars* referring to each transaction have been shortened so as to include only the *titles of the accounts* concerned. This makes it easy to refer to the two opposite entries for each transaction.

Finally, each transaction must be viewed as it affects the *business* or section of the business, and not the person running the business. All the transactions, except the first and last, are *trading* ones and so the double-entries will be made in personal a/cs on the one side, and in the Leather Store a/c or Business Cash a/c on the other side.

19..		£	s.	d.
Jan. 1	J. Watson began business as a leather merchant with capital in cash	1,500	—	—
„ 3	Bought leather from T. Atkins, value	900	—	—
„ 5	Bought leather from J. Johnson, value	100	—	—
„ 9	Sold leather to W. White for	300	—	—
„ 16	Sold leather to B. Black for	400	—	—
„ 20	Sold leather to G. Green for	350	—	—
„ 22	Paid cash to J. Johnson	100	—	—
„ 24	Paid cash to T. Atkins	700	—	—
„ 27	Received cash from B. Black	400	—	—
„ 29	Received cash from G. Green	300	—	—
„ 31	Paid storekeeper a month's wages	16	—	—

Dr.

Cr.

Date	Particulars	£	Date	Particulars	£
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<i>Dr.</i> J. WATSON'S CAPITAL A/c			<i>Cr.</i>		
			19.. Jan. 1	Business Cash a/c	£ 1,500
<i>Dr.</i> BUSINESS CASH A/c			<i>Cr.</i>		
19.. Jan. 1	J. Watson's Capital a/c	£ 1,500	19.. Jan. 22	J. Johnson a/c	£ 100
„ 27	B. Black a/c	400	„ 24	T. Atkins a/c	700
„ 29	G. Green a/c	300	„ 31	Storeman's a/c	16
<i>Dr.</i> LEATHER STORE A/c			<i>Cr.</i>		
19.. Jan. 3	T. Atkins' a/c	£ 900	19.. Jan. 9	W. White a/c	£ 300
„ 5	J. Johnson a/c	100	„ 16	B. Black a/c	400
			„ 20	G. Green a/c	350
<i>Dr.</i> T. ATKINS A/c			<i>Cr.</i>		
19.. Jan. 24	Business Cash a/c	£ 700	19.. Jan. 3	Leather Store a/c	£ 900
<i>Dr.</i> J. JOHNSON A/c			<i>Cr.</i>		
19.. Jan. 22	Business Cash a/c	£ 100	19.. Jan. 5	Leather Store a/c	£ 100
<i>Dr.</i> W. WHITE A/c			<i>Cr.</i>		
19.. Jan. 9	Leather Store a/c	£ 300			
<i>Dr.</i> B. BLACK A/c			<i>Cr.</i>		
19.. Jan. 16	Leather Store a/c	£ 400	19.. Jan. 27	Business Cash a/c	£ 400
<i>Dr.</i> G. GREEN A/c			<i>Cr.</i>		
19.. Jan. 20	Leather Store a/c	£ 350	19.. Jan. 29	Business Cash a/c	£ 300
<i>Dr.</i> STOREMAN A/c (for wages received)			<i>Cr.</i>		
19.. Jan. 31	Business Cash a/c	£ 16			

When all the transactions have been entered, it will be necessary to check them to see that they have been made correctly. Care must be taken to see that—

- (1) A double-entry for each transaction has been made in the proper accounts, and on the correct side of each ;
- (2) that the right amounts have been entered ; and
- (3) all transactions have been dealt with.

A final test will then be made to see that the work has been correctly done. This will consist of preparing an arithmetical statement to prove that the total of the entries on the debit side is equal to the total of those on the credit side. If these totals balance, the Ledger entries will be arithmetically correct. Such a statement is called a *Trial Balance*. A statement of this kind has to be *dated* because the items in a Trial Balance will show the debit or credit position of the accounts at the Trial Balance date.

TRIAL BALANCE OF LEDGER A/cs, as on 31st January, 19..

TITLE OF ACCOUNT	Dr. side	Cr. side
	£	£
J. Watson's Capital a/c	—	1,500
Business Cash a/c	2,200	816
Leather Store a/c	1,000	1,050
T. Atkins a/c	700	900
J. Johnson a/c	100	100
W. White a/c	300	—
B. Black a/c	400	400
G. Green a/c	350	300
Storeman (Wages) a/c	16	—
	£5,066	£5,066

It is customary to compile a Trial Balance in a more simple form than the above by including only the *amount of difference* between the two sides of each account. Obviously, if the totals of Ledger accounts in a Trial Balance agree, the differences will do so. In addition, it is better to make up a Trial Balance with “differences” because it will show at a glance whether an account has a difference (or *balance*, as it is called) on the debit side, or a balance on the credit side. If an account has a greater amount on the debit side than on the

credit side, the difference (or balance) will be on the *debit* side. This is known as a *debit balance*. Conversely, an account will have a credit balance when the amount on the credit side is greater than that on the debit side. In the previous exercise, for example, the Business Cash a/c shows a debit balance of £1,384, while T. Atkins a/c shows a credit balance of £200.

The Trial Balance can now be set out in this simpler form, as shown.

TRIAL BALANCE OF LEDGER A/cs, as on 31st January, 19..

TITLE OF ACCOUNT	Debit balances	Credit balances
J. Watson's Capital a/c	£ —	£ 1,500
Business Cash a/c	1,384	—
Leather Store a/c	—	50
T. Atkins a/c	—	200
J. Johnson a/c	—	—
W. White a/c	300	—
B. Black a/c	—	—
G. Green a/c	50	—
Storeman (Wages) a/c	16	—
	£1,750	£1,750

So far, we have shown how the system of double-entry book-keeping is used to record transactions in the Ledger and how it enables all the details of trading to be properly set out so that they are readily available for inspection. The second chapter will show how this system enables the owner to get a bird's-eye view of the progress of his business and whether it is being run profitably or unprofitably.

EXERCISES

Ledger Accounts and a Trial Balance should be prepared for each of the following exercises on the lines illustrated in the foregoing exercise. Ledger *balances only* should be shown in the Trial Balances.

No. 1

W. Stansfield commenced business as a timber merchant on the 1st January, 19.., with cash amounting to £550. His business transactions during the month of January were as follows—

19..

- Jan. 2. Bought timber from F. Beech, £150.
 „ 3. Bought timber from G. Thompson, £57.
 „ 8. Sold timber to G. Morris, £105.
 „ 15. Paid F. Beech for timber, £150.
 „ 25. Paid G. Thompson for timber, £50 on account.
 „ 29. Paid business expenses, £30.
 „ 30. G. Morris paid for part timber, £90.
 „ 31. Paid wages of clerk and storekeeper, £9 10s. for month.

Answer : Trial Balance totals £557.

No. 2

On 1st April, 19.., W. Wilkinson commenced business as a hardware merchant. His capital consisted of cash £850. During the month of April the following transactions took place—

19..

- April 1. Purchased enamel goods from Platers' Metal Co., £235.
 „ 5. Bought goods from B. Lawson, £200.
 „ 10. Sold goods to F. Broderick, £97.
 „ 15. Paid Platers' Metal Co., £135.
 „ 22. Sold goods to H. Hargreaves, £220.
 „ 27. Paid to B. Lawson for goods, £200.
 „ 30. Bought goods from Platers' Metal Co., £60.
 „ 30. Paid wages of storemen and clerks, £27 10s. for month.

Answer : Trial Balance totals £1,010.

No. 3

W. Wright began business as a builders' merchant on the 1st February, 19.., with cash amounting to £820. His business transactions during the month of February were as follows—

- Feb. 1. Paid rent of premises for month, £20.
 „ 2. Bought goods from W. Pearce, £250.
 „ 3. Bought goods from M. Dougan, £150.
 „ 6. Sold goods to the New Estate Company, £300.
 „ 10. Sold goods to B. Lawson, £85.
 „ 15. Paid W. Pearce for goods, £250.
 „ 20. Paid M. Dougan £100 on account.
 „ 27. The New Estate Company paid £300 for goods supplied.
 „ 28. B. Lawson paid £70 on account.
 „ 28. Paid storeman's wages for month, £16.

Answer : Trial Balance totals £870.

No. 4

M. Dougan commenced business on the 1st January, 19.., as a wholesale confectioner, with cash £700. During the month of January the following transactions took place—

- Jan. 1. Bought goods from W. Smith, £200.
„ 2. Bought goods from the General Yeast Co., £50.
„ 10. Sold goods to L. Morris, £130.
„ 12. Sold goods to K. Brown & Co., £140.
„ 17. Paid W. Smith for goods, £100.
„ 21. L. Morris paid for goods, £130.
„ 27. Sold goods to K. Brown & Co., £70.
„ 27. Bought goods from the General Yeast Co., £120.
„ 30. Paid the General Yeast Co. £50 for goods supplied.
„ 31. Paid wages of assistants £25 for month.

Answer : Trial Balance totals £920.

No. 5

On the 1st March, 19.., H. Atkins began business as a leather merchant with cash amounting to £350. During the month the following business was done—

- Mar. 5. Bought leather from H. Jones, £150.
„ 8. Bought leather from O. Smith, £95.
„ 15. Sold leather to K. Thompson, £120.
„ 22. Paid H. Jones for leather, £150.
„ 29. Sold leather to K. Thompson, £50.
„ 31. Sold leather to L. Wadman, £90.
„ 31. Paid O. Smith for leather, £90 on account.
„ 31. Paid wages of storeman for month, £15.

Answer : Trial Balance totals £370.

No. 6

/ W. Wiggins commenced business as a coal merchant on the 1st May, 19.., with cash amounting to £900. The following transactions were made during the month—

- May 2. Paid £10 for hire of lorry for month.
„ 3. Bought coal from the Deep Colliery Co., £1,500.
„ 7. Sold coal to the Modern Town Borough Council, £75.
„ 10. Sold coal to L. Greenwood, £90.
„ 15. Bought coal from B. Lawson & Co., £130.
„ 20. Sold coal to the New Era Manufacturing Co., £100.
„ 25. Paid the Deep Colliery Co., £150 for coal supplied.
„ 29. The Modern Town Borough Council paid £75 for coal supplied.
„ 31. L. Greenwood paid £80 on account.
„ 31. Paid wages of yardmen, £30 for month.

Answer : Trial Balance totals £1,030.

No. 7

L. Peters commenced business on the 1st February, 19.., as a metal merchant with cash amounting to £650. The following business was done during the month—

- Feb. 3. Bought metal from S. Green, £350.
- „ 4. Sold metal to B. North, £57.
- „ 10. Paid S. Green £350 for metal supplied.
- „ 15. Sold metal to N. Smith & Co., £190.
- „ 20. Sold metal to K. Bottomley, £25.
- „ 27. B. North paid £57 for metal supplied.
- „ 28. N. Smith & Co. paid £150 on account of metal supplied.
- „ 28. Paid storeman's wages for month, £17.

Answer : Trial Balance totals £650.

No. 8

B. Newsome commenced business on the 1st April, 19.., as a cycle dealer, with cash amounting to £750. His business transactions for the month of April were as follows—

- April 2. Bought cycles from the Modern Cycle Co., £70.
- „ 3. Sold cycles to L. Brown, £25.
- „ 10. Bought cycles from K. Lipton & Co., £150.
- „ 15. Sold cycles to D. Gaywood, £95.
- „ 22. Paid the Modern Cycle Co., £70.
- „ 27. Received £25 from L. Brown.
- „ 30. Paid K. Lipton & Co. £150 for cycles purchased.
- „ 30. Paid wages of storekeeper, £16 for month.

Answer : Trial Balance totals £750.

CHAPTER II

FINDING the Profit or Loss on Trading—Value of Stock on Hand—
Expenses—Balance Sheet—Assets and Liabilities—Balancing the
Accounts Listed in the Amended Trial Balance—Exercises.

Finding the Profit or Loss on Trading. When the Trial Balance is completed, J. Watson will want to know how much profit or loss his trading has brought him in the month. As trading consists of buying and selling goods, we shall have to turn to the account that records such transactions. That account is the Leather Store a/c.—

Dr.	LEATHER STORE A/c	Cr.
19..		
Jan. 3	T. Atkins a/c	£ 900
„ 5	J. Johnson a/c	100
		£ 1,000
19..		
Jan. 9	W. White a/c	£ 300
„ 16	B. Black a/c	400
„ 20	G. Green a/c	350
		£ 1,050

We see that the leather cost £1,000 and that the credit sales amounted to £1,050; but the account does not tell us whether the business sold *all* the leather. We shall have to visit the leather store to see whether there is any stock left. If some remains, Watson will have to say what it is worth.

Let us suppose, for the sake of explanation, that—

- (i) 20 bales of leather were bought for £1,000 (at £50 a bale);
- (ii) 15 bales were sold for £1,050 (at £70 a bale);
- (iii) Watson values the remaining leather (5 bales) at £50 a bale (i.e. £250).

These particulars can be set out in a statement, as under—

	£
Cost of 20 bales	1,000
Deduct the cost of 5 bales, <i>unsold</i>	250
	750
The <i>cost</i> of 15 bales sold is	750
Sale price of 15 bales is	1,050
	1,050
Total profit on sales (called <i>gross profit</i>)	£300

When the business has paid for all the leather it bought and has been paid for the 15 bales sold, there will be a gain of £300, which will be *represented by* £50 in *cash* and *leather* valued at £250. The business will, of course, hope to make still more profit when it disposes of the remaining five bales, but such profit (if any) will not be known in advance.

Value of Stock on Hand. The word “stock” usually refers to the *quantity* of goods, and so the term “value of stock on hand,” refers to the value of the quantity of goods remaining unsold at the time of valuation.

Records of goods in store are kept on stock cards or stock sheets (see Part III), which show the *quantities* bought and *their cost prices*. When goods are sent from the Stores Dept. to the Sales Dept. to be sold, entries are made on the stock cards concerned to record their transfer, so that the cards may always show the correct quantities on hand. The *book value* of stock on hand may therefore be found by using these cards for listing the cost prices of all the goods in store, together with those in the Sales Dept.

The valuation of stocks—or stock-taking, as it is called—may be done annually or more frequently. When it is carried out, the goods themselves will be counted or weighed, etc., and examined for condition, so as to compare actual quantities with those shown on the stock cards. After checking, the owner will have to decide what the goods are worth. The stock cards will show their book value (i.e. cost prices) and, if the goods are in marketable condition and prices are substantially what they were when the goods were bought, then the stock card prices would be used for valuation purposes. If, on the other hand, market prices at the time of stock-taking were lower than their cost price, then the former would be used as a basis for valuation. Stock-taking usually brings to light any leakages in quantities, and any defects in the quality of the goods. The cards can then be adjusted to show the proper quantities in store and their new values, if amended.

Now that the gross profit has been calculated by arithmetic, the statement can be put in book-keeping form. This is done by *crediting* the Leather Store a/c and *debiting* a *new* account (called a Stock-on-hand a/c) with the value of the stock on hand, £250. The reason for these two entries is as

follows : The entry of £250 on the credit side of the Leather Store a/c has the effect of reducing the debit side of that a/c (i.e. the total purchases) by £250, as was done in the statement. If, however, this credit entry had no corresponding debit entry, it would wipe out the *book value* of the stock on hand. We therefore have to make a corresponding debit entry in the new Stock-on-hand a/c in order to preserve the book record of this stock.

We will now complete the Leather Store a/c and open the Stock-on-hand a/c to show these records—

Dr.		LEATHER STORE A/c		Cr.	
19..		£	19..		£
Jan. 3	T. Atkins a/c .	900	Jan. 9	W. White a/c .	300
" 5	J. Johnson a/c .	100	" 16	B. Black a/c .	400
" 31	Gross profit transferred to Profit & Loss a/c .	300	" 20	G. Green a/c .	350
			" 31	Stock on hand a/c (being its value on 31st Jan.)	250
		<u>£ 1,300</u>			<u>£ 1,300</u>

Dr.		STOCK OF LEATHER A/c		Cr.	
19..		£			
Jan. 31	Leather Store a/c (being value of goods unsold on 31st January)	250			

Dr. PROFIT AND LOSS A/c, prepared on 31st January, 19..		Cr.	
		19..	£
		Jan. 31	Leather Store a/c (being gross profit on month's trading) . .
			300

The balance of £300, which is entered on the debit side of the Leather Store a/c, shows the gross profit. Here again, this debit entry, without a corresponding credit entry, would throw the accounts out of balance. This credit entry is also made in a new account, called a Profit & Loss a/c (usually

abbreviated to P. & L. a/c). The reason for opening this new account is that although the business made a trading profit of £300, this was not "clear" profit, as the business had to spend £16 on storeman's wages to earn it. The £300 balance in the Leather Store a/c must therefore be moved to the new account, where this final calculation can be made. The effect of this transfer is to move the credit balance of £300 from the Leather Store a/c to the Profit & Loss a/c, thus closing the former account.

It is important to bear in mind that when an amount is transferred from one account to another, it must be transferred to the *same* side in the new account. Let us take the following illustration—

Dr.	LEATHER STORE No. 1 A/c				Cr.
	T. Jones a/c	£ 120		J. Williams a/c	£ 40

This account has a *debit* balance of £80 *because the debit side is the greater by this amount*. If this debit balance of £80 is transferred to say, a Leather Store No. 2 a/c (i.e. implying that the leather has been moved from No. 1 store to No. 2 store), the transfer entries will be—

Dr.	LEATHER STORE No. 1 A/c				Cr.
	T. Jones a/c	£ 120		J. Williams a/c	£ 40
				Balance transferred to Leather Store No. 2 a/c	80
		£120			£120

Dr.	LEATHER STORE No. 2 A/c				Cr.
	Balance transferred from Leather Stores No. 1 a/c	£ 80			

This shows that, as a result of the transfer entries, the debit balance in No. 1 a/c has become a *debit* balance in No. 2 a/c.

Expenses. When the business spent £16 on storeman's wages, it has to be remembered that it received his *services* in return. Services, like storekeeping, etc., are forms of help which a business proprietor has to obtain from other sources because he cannot give them himself. Nevertheless, the costs of services are *business expenses* because, in ordinary circumstances, they have to be paid out of the proceeds of sales.

In the case of the storeman, the Cash a/c parted with £16 and *received* services of that value in return. As this value is recorded in the books as an *expense*, it will be debited to an appropriate expense a/c. In our exercise we used the heading "Storeman's (wages) a/c," but later on it will be given the impersonal title of "Wages a/c" to show the *class* of expenditure to which it belongs.

The £16 spent on wages thus reduces the profit from £300 to £284, and so we open an account (the Profit & Loss a/c), to show this calculation. Finally, as J. Watson is the owner of the business, the net profit of £284 will be transferred from the Profit & Loss a/c to his Capital a/c, so that it may be there added to his initial capital.

If there had been a net loss, instead of a net profit, the loss would have been transferred to the *debit* side of his Capital a/c so that it could be shown there as a loss of capital instead of an increase.

The following statement illustrates the order in which the calculations have to be made—

Gross profit	£	300
<i>Deduct</i> expenses (wages)	16	
	<hr/>	
Real or net profit	284	
	<hr/>	
Watson's capital (1st January)	1,500	
<i>Add</i> net profit	284	
	<hr/>	
Capital (at 31st January)	<u>£1,784</u>	

In order to put the above in book-keeping form, we have to place £16 wages *opposite* the £300 gross profit in the Profit & Loss a/c, so as to show that it is to be *deducted* from the gross profit.

The £16 wages has to be transferred from the Storeman's a/c to the Profit & Loss a/c and, when this is done, the Storeman's a/c will be closed. This transfer, and the subsequent transfer of the net profit to Watson's Capital a/c, completes the above calculation. The three accounts concerned, showing the transfers, are completed as follows—

<i>Dr.</i>		STOREMAN'S (WAGES) A/c		<i>Cr.</i>	
Jan. 31	Business Cash a/c	£ 16	Jan. 31	Transfer to Profit and Loss a/c	£ 16

PROFIT & LOSS A/c, prepared on January 31st, 19..

<i>Expenses and Losses this side</i>			<i>Gross Profit and other gains this side</i>		
19..		£	19..		£
Jan. 31	Storeman's (wages) a/c	16	Jan. 31	Gross profit transferred from Leather Store a/c	300
„ 31	Balance, being net profit, transferred to Watson's Capital a/c	284			
		<u>£300</u>			<u>£300</u>

<i>Dr.</i>		WATSON'S CAPITAL A/c		<i>Cr.</i>	
			19..		£
			Jan. 1	Business Cash a/c	1,500
			„ 31	Profit & Loss a/c (amount of net profit transferred therefrom)	284
					<u>£ 1,784</u>

We can now draw up an amended Trial Balance to show the effect of these calculations on the accounts.

**TRIAL BALANCE (31ST JAN., 19..) AFTER CALCULATING
THE NET PROFIT**

TITLES OF ACCOUNTS	Debit balances	Credit balances
Watson's Capital a/c	£	£
Business Cash a/c	1,384	1,784
T. Atkins a/c		200
W. White a/c	300	
G. Green a/c	50	
Stock of Leather a/c (new a/c)	250	
	<u>£1,984</u>	<u>£1,984</u>

Johnson's and Black's accounts are not included in this Trial Balance as they are closed (i.e. they have no balances). The Leather Store a/c is also closed because the balance of gross profit was transferred to the Profit & Loss a/c. The Storeman's a/c and the Profit & Loss a/c are also closed because the amounts in them were also transferred.

Balance Sheet. This amended Trial Balance is never prepared as such, but is set out in another form, called a *Balance Sheet*. This is, of course, only a statement—like a Trial Balance—to show the balances of the Ledger accounts which remain open at the end of a trading period, after the calculation of the net profit or loss.

The final Trial Balance, shown above, would be set out as follows—

BALANCE SHEET OF J. WATSON'S BUSINESS

PREPARED ON 31ST JANUARY, 19..

LIABILITIES		ASSETS	
Watson's Capital	£ 1,784	Stock on hand, at cost price	£ 250
Creditors—		Debtors—	
T. Atkins	200	W. White	£300
		G. Green	50
		Business Cash	350
			1,384
	<u>£ 1,984</u>		<u>£ 1,984</u>

Assets and Liabilities. A Balance Sheet is made up of two distinctive classes of balances—

- (1) *Debit balances.* These consist of things the business *owns* and are called *assets*. For example, the business cash balance is classified as an asset because it belongs to the business. This also applies to stock on hand and the debts of W. White and G. Green.
- (2) *Credit balances.* These are things the business *owes*, and are known as *liabilities*. The business is liable to J. Watson for the £1,784 capital he now has in the business. He is, in effect, a creditor of the business. The business also owes £200 to T. Atkins. This liability was incurred as a result of trading, and so Atkins is referred to as a trade creditor.

It is customary to list assets and liabilities in a certain order, but this matter will be dealt with later on.

Balancing the Accounts listed in the amended Trial Balance. After the Balance Sheet has been prepared, it is usual to show the final balances *in the accounts themselves*. This is done by “bringing down” the balances in the accounts concerned.

Let us refer to the Cash a/c on page 10. We know, from the amended Trial Balance, that the Business Cash a/c has a debit balance of £1,384, but we cannot ascertain this by merely looking at the Cash a/c itself. It is therefore an advantage *to show* the balance in the account (i.e. the amount of cash in hand), and this is done by making a double-entry in the account. This consists merely in entering the difference on the smaller (i.e. credit) side, so as to balance the account, and then entering this difference, or balance as it is called, below the account, but on the *opposite* side, so as to preserve the double-entry balance. If we made the credit entry only, we should be wiping out the book-keeping record of the cash balance.

The abbreviations *c/d* and *b/d* refer to “carried down” and “brought down,” respectively.

The Cash a/c showing the transactions for January, 19.., and the balance brought down in readiness for the next trading period, is set out on page 24.

<i>Dr.</i>		BUSINESS CASH A/c		<i>Cr.</i>	
19..		£	19..		£
Jan. 1	To J. Watson's Capital a/c .	1,500	Jan. 22	By J. Johnson a/c	100
" 27	" B. Black a/c .	400	" 24	" T. Atkins a/c	700
" 29	" G. Green a/c .	300	" 31	" Storeman's (Wages) a/c	16
			" 31	" Balance c/d .	1,384
		£ 2,200			£ 2,200
Feb. 1	To Balance b/d	1,384			

When making the respective credit and debit entries for each transaction, it is customary to prefix "By" to the narration for the credit entry and the word "To" to the narration for the corresponding debit entry. This is done as a matter of practice and no further explanation need be given to it. These details have been included in the above Cash a/c.

The following exercise is set out fully to illustrate the preparation of the accounts concerned, the Trial Balance and the Balance Sheet. The result of trading shows a loss which is increased by trading expenses, so that the final capital is less than it was at the beginning. The additional exercises should be worked fully as in this exercise.

T. Jones started business on 1st January, 19.., as a metal merchant with cash £1,000. During January the following transactions took place—

Jan. 2.	Bought metal from B. Brown	£ 125 ✓
" 5.	Sold metal to H. Jinks & Co.	90 ✓
" 9.	Bought metal from J. Rose	740 ✓
" 15.	Sold metal to G. Green	75 ✓
" 20.	Sold metal to G. Green	420 ✓
" 22.	Paid cash to B. Brown	125 ✓
" 24.	Paid cash to J. Rose	500 ✓
" 27.	Sold metal to H. Jinks & Co.	127 ✓
" 29.	Received cash from G. Green	495 ✓
" 31.	Paid Storeman a month's wages	16 ✓
" 31.	Paid Railway Co. for carriage on metal sold	8 ✓
" 31.	Stock of metal on hand valued at	140 ✓

LEDGER ACCOUNTS

<i>Dr.</i>			T. JONES CAPITAL A/c			<i>Cr.</i>		
19..		£	19..		£			
Jan. 31	To Net loss transferred from		Jan. 1	By Business Cash				
	P. & L. a/c	37		a/c	1,000			
„ 31	„ Balance c/d	963						
		<u>£ 1,000</u>						<u>£ 1,000</u>
			Feb. 1	By Balance b/d	963			

<i>Dr.</i>			BUSINESS CASH A/c			<i>Cr.</i>		
19..		£	19..		£			
Jan. 1	To T. Jones Capital		Jan. 22	By B. Brown a/c	125			
	a/c	1,000	„ 24	„ J. Rose a/c	500			
„ 29	„ G. Green a/c	495	„ 31	„ Storeman				
				(wages) a/c	16			
			„ 31	„ Railway Co.				
				(carriage) a/c	8			
			„ 31	„ Balance c/d	846			
		<u>£ 1,495</u>						<u>£ 1,495</u>
Feb. 1	To Balance b/d	846						

<i>Dr.</i>			METAL STORE A/c			<i>Cr.</i>		
19..		£	19..		£			
Jan. 2	To B. Brown a/c	125	Jan. 5	By H. Jinks & Co.				
				a/c	90			
„ 9	„ J. Rose a/c	740	„ 15	„ G. Green a/c	75			
			„ 20	„ G. Green a/c	420			
			„ 27	„ H. Jinks & Co.				
				a/c	127			
			„ 31	„ Stock-on-				
				hand a/c	140			
			„ 31	„ Gross loss				
				transferred to				
				P. & L. a/c	13			
		<u>£ 865</u>						<u>£ 865</u>

<i>Dr.</i>		B. BROWN A/c		<i>Cr.</i>	
19..		£	19..	£	
Jan. 22	To Business Cash	125	Jan. 2	By Metal Store a/c	125
	a/c				

<i>Dr.</i>		H. JINKS & CO. A/c			
19..		£			
Jan. 5	To Metal Store a/c	90			
" 27	" Metal Store a/c	127			
		217			

<i>Dr.</i>		J. ROSE A/c		<i>Cr.</i>	
19..		£	19..	£	
Jan. 24	To Business Cash	500	Jan. 9	By Metal Store	740
" 31	a/c			a/c	
	" Balance c/d	240			
		£740			£740
			Feb. 1	By Balance b/d	240

<i>Dr.</i>		G. GREEN A/c		<i>Cr.</i>	
19..		£	19..	£	
Jan. 15	To Metal Store a/c	75	Jan. 29	By Business Cash	495
" 20	" Metal Store a/c	420		a/c	
		£495			£495

<i>Dr.</i>		STOREMAN (WAGES) A/c		<i>Cr.</i>	
19..		£	19..	£	
Jan. 31	To Business Cash	16	Jan. 31	By Transfer to P.	16
	a/c			& L. a/c	

<i>Dr.</i>		RAILWAY CO. (CARRIAGE) A/c		<i>Cr.</i>	
19..		£	19..	£	
Jan. 31	To Business Cash	8	Jan. 31	By Transfer to	8
	a/c			P. & L. a/c	

<i>Dr.</i>		STOCK ON HAND A/c		<i>Cr.</i>	
19..		£			
Jan. 31	To Metal Store a/c	140			

Dr. PROFIT & LOSS A/c FOR MONTH ENDED 31ST JANUARY, 19.. Cr.

19..		£	19..		£
Jan. 31	To Metal Stores a/c (gross loss transfrd. from)	13	Jan. 31	By Net loss trans- ferred to T. Jones Capital a/c	37
" 31	" Storeman (Wages a/c) (amt. transfrd)	16			
" 31	" Railway Co. (Carriage) a/c (do.)	8			
		<u>£37</u>			<u>£37</u>

BALANCE SHEET OF T. JONES BUSINESS
PREPARED ON 31ST JANUARY, 19..

Liabilities		Assets	
T. Jones's Capital. . . .	£ 963	Stock on hand, at cost price	£ 140
<i>Creditors—</i>		<i>Debtors—</i>	
J. Rose	240	H. Jinks & Co. . . .	217
		Business Cash	846
	<u>£ 1,203</u>		<u>£ 1,203</u>

NOTE—The Trial Balance has been placed at the end of the exercise so as to make it clear that it does not form part of the *Ledger* records. *Actually, it should be prepared as soon as the transactions for the period have been entered in the Ledger, and before the calculation of the gross profit is begun.*

TRIAL BALANCE, PREPARED ON 31ST JANUARY, 19..

TITLE OF ACCOUNT	Debit balances	Credit balances
	£	£
T. Jones Capital a/c		1,000
Business Cash a/c	846	—
Metal Stores a/c	153	—
H. Jinks & Co. a/c	217	—
J. Rose a/c	—	240
Storeman (Wages) a/c	16	—
Railway Co. (Carriage) a/c	8	—
	<u>£1,240</u>	<u>£1,240</u>

Stock of metal on hand valued at £140

EXERCISES

Ledger Accounts, Trial Balance, Trading and Profit & Loss Accounts and Balance Sheet should be prepared. All purchases and sales are on credit.

No. 1

On the 1st May, 19..., J. Brunskill began business as a wine and spirit merchant with cash amounting to £540. During May his business dealings were as follows—

- May 2. Bought wines from L. Brown, £195.
 „ 8. Sold wines to Imperial Catering Co., £103.
 „ 11. Bought wines and spirits from G. Johnson & Co., £88.
 „ 17. Paid L. Brown for part of purchase made on 2nd May, £150.
 „ 25. Imperial Catering Co., paid £103.
 „ 29. Sold wines A. Hanson, £96.
 „ 31. Paid wages, £21.
 „ 31. Paid other business expenses, £15.

Wines and spirits on hand at the end of the month were valued at £150.

Prepare : (1) Ledger accounts and a Trial Balance and find the Gross and Net profits.

(2) Balance Sheet as at 31st May, 19...

Answer : T.B. total, £673 ; G.P., £66 ; N.P., £30 ; B/S totals, £703.

No. 2

On the 1st January, 19..., H. Atkins began business as a wholesale grocer, with cash amounting to £850. His business transactions for the month of January were as follows—

- Jan. 3. Bought goods from Excell Co., Ltd., £120.
 „ 8. Bought goods from P. Jones, £90.
 „ 15. Sold goods to Retail Traders Co., £85.
 „ 19. Paid Excell Co., Ltd., for part purchase made on 3rd January, £100.
 „ 25. Received £85 from Retail Traders Co., in settlement of account.
 „ 27. Bought goods from Douglas & Co., £130.
 „ 31. Paid £3, Railway Company's charges on goods sold.
 „ 31. Paid storeman's wages for month, £20.
 „ 31. Value of stock of goods on hand, £300.

Prepare : Ledger a/cs as in Exercise No. 1.

Answer : T.B. totals, £1,090 ; G.P., £45 ; N.P., £22 ; B/S totals £1,112.

No. 3

W. North commenced business as a leather merchant on the 1st June, 19.., with £350 in cash. During June he did the following business—

- June 1. Bought leather from Newtown Tannery Co., £170.
- „ 3. Bought leather from R. Brown & Son, £75.
- „ 8. Sold leather to P. Wilkins, £97 10s.
- „ 12. Paid for lorry hire, £3 10s.
- „ 15. Sent cash to Newtown Tannery Co., £150.
- „ 19. Received cash from P. Wilkins, £97 10s.
- „ 23. Paid R. Brown & Son, £75.
- „ 27. Bought leather from G. Greenwood, £70.
- „ 29. Sold leather to K. Hargreaves, £63.
- „ 30. Paid employees' wages, £30.

Stock of leather on hand at the 30th June was valued at £205.

Prepare : Ledger a/c as in Exercise No. 1.

Answer : T.B. totals, £440 ; G.P., £50 10s. ; N.P., £17 ; B/S totals, £457.

No. 4

G. Altham commenced business on the 1st July, 19.., as a wholesale stationer, with £700 in cash. During July he did the following business—

- July 2. Bought goods from L. Robertson, £80.
- „ 4. Bought goods from New Era Paper Co., £300.
- „ 5. Sold goods to W. Brunskill, £95.
- „ 10. Bought goods from New Era Paper Co., £75.
- „ 12. Paid L. Robertson, £80.
- „ 17. Sold goods to P. Heywood, £90.
- „ 20. Sent cash to New Era Paper Co., £250.
- „ 25. Sold goods to W. Brunskill, £320.
- „ 29. Received cash from W. Brunskill, £90.
- „ 30. Received cash from P. Heywood, £90.
- „ 31. Sent cash to New Era Paper Co., £100.
- „ 31. Paid business expenses, £30.
- „ 31. Paid employees' wages, £50, for month.

Stock of goods on hand at 31st July was valued at £36.

Prepare : Ledger a/cs as in Exercise No. 1.

Answer : T.B. totals, £775 ; G.P., £86 ; N.P., £6 ; B/S totals, £731.

No. 5

On the 1st July, 19.., M. Wilkinson commenced business as a hardware merchant, with a capital of £1,500 in cash. His business transactions for the month of July were as follows—

- July 2. Bought hardware from Platers' Metal Co., £300.
 „ 5. Bought goods from B. Lawson, £160.
 „ 9. Sold goods to H. Jones, £90.
 „ 13. Bought goods from G. Brown, £170.
 „ 17. Paid Platers' Metal Co. cash, £275.
 „ 21. Sold goods to G. Altham, £190.
 „ 23. Received cash £90 from H. Jones.
 „ 27. Paid B. Lawson cash, £160.
 „ 30. Bought goods from G. Brown, £63.
 „ 31. Paid G. Brown in cash, £170.
 „ 31. Paid employees' wages, £60.

Stock of goods on hand at 31st July, £500.

Prepare : Ledger a/cs as in Exercise No. 1.

Answer : T.B. totals, £1,588 ; G.P., £87 ; N.P., £27 ; B/S totals, £1,615.

No. 6

B. Lawson commenced business as a cotton merchant on the 1st September, 19... His business transactions for the month were as follows—

- Sept. 1. Transferred £600 from his private account to his business.
 „ 2. Bought cloth from the Textile Manufacturing Co., £250.
 „ 6. Sold cloth to J. Bottomley, £75.
 „ 10. Bought cloth from K. Davey, £173.
 „ 15. Paid cash, £200, for part of cloth bought from the Textile Manufacturing Co.
 „ 17. Sold cloth as follows—
 J. Bottomley, £60.
 W. Hoare, £15.
 M. Young & Co., £75.
 „ 23. Received cash, £100, from J. Bottomley.
 „ 27. Bought cloth from J. Daniels, £140.
 „ 27. Sold cloth to M. Young & Co., £155.
 „ 27. Paid cash, £50, to the Textile Manufacturing Co., and £150 to K. Davey.
 „ 30. Paid employees' wages for month, £50.
 „ 30. Stock of cloth on hand valued at £320.

Prepare : Ledger a/c as in Exercise No. 1.

Answer : T.B. totals, £763 ; G.P., £137 ; N.P., £87 ; B/S totals, £850.

CHAPTER III

PURCHASES and Sales of Goods—Cash Sales and Cash Purchases—
The Grouping of Similar Transactions and their Record in the
Ledger—Grouping of Credit Sales and Credit Purchases—Ledger
Posting—Grouping of Cash Sales and Cash Purchases—Folio Num-
bers—The Trading Account—Exercises.

Purchases and Sales of Goods. As we know, a business may sell its goods on credit or for cash, just as it may buy on these terms. Let us take an example of a credit transaction—

Jan. 1. W. Jones sold goods to T. Watkins for £50.

This transaction implies that Jones agreed to transfer the *ownership* of the goods to Watkins for £50. Although Watkins becomes the new owner, he may, nevertheless, decide not to take delivery of the goods if, for example, he sells them immediately to, say, Wilson. Hence, the question of taking possession of them is a matter for the buyer, and has nothing to do with the actual contract of sale.

Matters connected with *carrying out* a contract of sale—such as the date of delivery of the goods, the date and method of payment, etc.—are usually settled after the agreement to sell has been decided upon. A contract of sale is binding on the seller and buyer alike, and if either party breaks such an agreement, the injured party may, if he wishes to do so, sue the other in a court of law for breach of contract. There are certain legal formalities which have to be observed in order to be able to sue successfully in connection with a sale of goods, such as having written proof of a transaction when the value of goods exceeds £10; but such matters can be referred to later.

When, therefore, an agreement to sell goods has been made, a *transaction* has taken place, because there has been a transfer in the *ownership* of the goods. In the example above, Jones transferred the ownership of the goods to Watkins and the latter received it. This is why we can credit Jones's a/c with the amount of the sale and debit Watkins with a like amount. If the goods had been sent to Watkins on approval, no sale would be made until he agreed to buy them, and so he would not be debited with their cost until such transaction took place.

Jones would *complete* his part of the sale when he handed over the goods, and Watkins would complete his part when he paid for them. Payment might be made either when the agreement to sell was made or at some future time.

Cash Sales and Cash Purchases. From the above, we see that a Cash sale is a *completed* contract and that it is made up of *two* distinct transactions—

- (a) the transfer of ownership of the goods ;
- (b) the payment for them.

In order to show the book-keeping entries for a cash sale, let us suppose Watkins paid for the goods when he bought them. Remembering the two-fold nature of a cash sale, the four Ledger entries in Jones's books would be—

Dr.	W. JONES LEATHER STORE A/c	Cr.
	19.. Jan. 1	By T. Watkins a/c . £ 50

Dr.	T. WATKINS A/c	Cr.
19.. Jan. 1	To Leather Store a/c £ 50	19.. Jan. 1 By Business Cash a/c £ 50

Dr.	BUSINESS CASH A/c	Cr.
19.. Jan. 1	To T. Watkins a/c . £ 50	

As Watkins paid cash on 1st January, his account would be closed on that date. Debts remain only when goods are sold or purchased on credit and so it is only in such instances that personal accounts are wanted. In consequence, T. Watkins's a/c would be omitted. In the case of a cash purchase, we should credit the Cash a/c, to show that *cash* was parted with, and debit the Leather Store a/c to record the receipt of *leather*.

The Grouping of Similar Transactions and their Record in the Ledger. We know that trading consists of—

- (a) buying goods on credit and for cash ;
- (b) selling goods on credit and for cash.

Let us illustrate these *four* classes of transactions by recording the following trading in the books of J. Jones, leather merchant—

19..

- Jan. 1. Started business with capital of £250 in cash.
 „ 4. Bought leather from W. Wilkins, £75.
 „ 7. Sold leather for cash, £12.
 „ 9. Sold leather to J. Jackson, £10.
 „ 11. Bought leather from S. Spence, £20.
 „ 14. Bought leather for cash, £14.
 „ 18. Sold leather to H. Hake, £16.
 „ 20. Sold leather to J. Johnson, £20.
 „ 21. Sold leather for cash, £15.

Dr.	J. JONES CAPITAL A/c				Cr.
			19.. Jan. 1	By Cash a/c .	£ 250

Dr.	BUSINESS CASH A/c				Cr.
19.. Jan. 1	To J. Jones Capital a/c .	£ 250	19.. Jan. 14	By Leather Store a/c .	£ 14
„ 7	„ Leather Store a/c .	12			
„ 21	„ Leather Store a/c .	15			

Dr.	LEATHER STORE A/c				Cr.
19.. Jan. 4	To W. Wilkins a/c .	£ 75	19.. Jan. 7	By Business Cash a/c .	£ 12
„ 11	„ S. Spence a/c .	20	„ 9	„ J. Jackson a/c .	10
„ 14	„ Business Cash a/c .	14	„ 18	„ H. Hake a/c .	16
			„ 20	„ J. Johnson a/c .	20
			„ 21	„ Business Cash a/c .	15

Dr.	W. WILKINS A/c				Cr.
.			19.. Jan. 4	By Leather Store a/c	£ 75

<i>Dr.</i>		J. JACKSON A/c		<i>Cr.</i>	
19..	Jan. 9	To Leather Store a/c	£ 10		

<i>Dr.</i>		S. SPENCE A/c		<i>Cr.</i>	
				19..	Jan. 11
				By Leather Store a/c	£ 20

<i>Dr.</i>		H. HAKE A/c		<i>Cr.</i>	
19..	Jan. 18	To Leather Store a/c	£ 16		

<i>Dr.</i>		J. JOHNSON A/c		<i>Cr.</i>	
19..	Jan. 20	To Leather Store a/c	£ 20		

We will now sub-divide the Leather Store a/c into four parts to show separate accounts for credit sales, cash sales, credit purchases, and cash purchases. This sub-division will not, of course, affect the double-entry.

<i>Dr.</i>		CREDIT SALES A/c		<i>Cr.</i>	
				19..	Jan. 9
				By J. Jackson a/c	£ 10
				" 18	" H. Hake a/c . 16
				" 20	" J. Johnson a/c . 20

<i>Dr.</i>		CASH SALES A/c		<i>Cr.</i>	
				19..	Jan. 7
				By Business Cash a/c	£ 12
				" 21	" Business Cash a/c 15

<i>Dr.</i>		CREDIT PURCHASES A/c		<i>Cr.</i>	
19..	Jan. 4	To W. Wilkins a/c	£ 75		
	" 11	" S. Spence a/c	20		

Dr.	CASH PURCHASES A/c				Cr.
19.. Jan. 14	To Business Cash a/c	£ 14			

Although all business transactions will be entered in the Ledger in accordance with double-entry principles, the *accounts relating to trading* (i.e. the four accounts above) should be displayed in such a form as to be more than a mere record of transactions. Jones will depend on accounts to tell him how his trading is progressing from time to time and to enable him to compare his current trading figures with those of previous periods.

Facts of this kind are usually discovered as a result of displaying trading transactions of similar kinds in monthly totals. Trading transactions lend themselves to this kind of classification because they are repetitive, and so we shall proceed to show how Ledger entries, in the form of totals, are recorded for—

- (1) credit sales and credit purchases ;
- (2) cash sales and cash purchases.

Incidentally, such groupings enable trading transactions to be set out in a more *concise* manner and yet provide all the information required.

Grouping of Credit Sales and Credit Purchases. For the purpose of explanation, it will be sufficient to deal with credit sales only, as the explanation for this class of transaction will apply equally for credit purchases.

Let us, therefore, look at the Credit Sales a/c and the corresponding personal accounts of Jackson, Hake, and Johnson. In regard to the latter accounts, we shall have to retain separate accounts for these three persons because *personal* accounts cannot be classified, except as debtors and creditors. Each person is responsible for the settlement of his own account and so their accounts cannot be combined into one composite account for the purpose of reducing book-keeping entries.

On the other hand, the three entries in the Credit Sales a/c can be reduced to *one* entry. There is no point in recording transactions in this account *singly* as we have opened personal accounts for this purpose.

For brevity, therefore, the Credit Sales a/c may be shown as—

Dr.	CREDIT SALES A/c				Cr.
			19.. Jan. 21	By credit sales for period 1-21 Jan.	£ 46

In order to make this group entry of £46, we shall need a preliminary book in which we can assemble credit sales *as they are made*, day by day. The entries in this book will be totalled monthly or four-weekly—the latter for preference, in order to give 13 comparable periods in the year—and, at the end of each period, the *total amount* of credit sales will be *posted* to the credit side of the Credit Sales a/c. Each personal account concerned will also have its entries posted from this book, day by day, so as to keep these personal records always up to date.

The word “post” means “to record.”

Ledger Posting. Transactions may be recorded in the Ledger by two methods—

- (i) *Directly.* This is done by crediting and debiting the Ledger a/cs concerned in accordance with the principles already explained.
- (ii) *Indirectly.* In this case a transaction is *first of all* recorded in a book which is used for assembling transactions of a similar kind, as described above.

Postings or recordings are made from this book to the Ledger a/cs, and cross-reference numbers are made in the book and in the accounts so that the record of any transaction may be easily traced from the book to the two accounts concerned, or vice versa.

A primary book of this sort is called a *Day Book* because daily records are made in it.

There will be one such book kept specially for credit sales—called a *Sales Day Book*—and another for credit purchases—called a *Purchases Day Book*.

The following specimens of Sales Day Book (S.D.B.) and Purchases Day Book (P.D.B.) are set out to show the kind of information that is entered in them in respect of various trading transactions, and also how they are totalled and

posted to the respective accounts. These two books are, of course, concerned only with trade debtors and trade creditors because they are the persons to whom the business sells and from whom it buys.

SALES DAY BOOK

Folio 17

Date	Reference (Invoice No.)	Name	Particulars	Folio No. of Ledger a/c	Amount		
19..					£	s.	d.
Jan. 9		J. Jackson . .	Leather . .	30	10	-	-
" 18		H. Hake . .	" . .	21	16	-	-
" 20		J. Johnson . .	" . .	33	20	-	-
" 21		Total of Cr. sales (1-21st Jan.) posted to Cr. Sales a/c		45	£ 46	-	-

PURCHASES DAY BOOK

Folio 29

Date	Reference (invoice No.)	Name	Particulars	Folio No. of Ledger a/c	Amount		
19..					£	s.	d.
Jan. 4		W. Watkins . .	Leather . .	127	75	-	-
" 11		S. Spence . .	" . .	94	20	-	-
" 21		Total of Cr. Purchases (1-21st Jan.) posted to Dr. of Purchases a/c . .		46	£ 95	-	-

The transactions recorded in the above books would be shown in the two accounts, as follows—

Dr. CREDIT SALES A/c Folio 45 Cr.

Date	Particulars	Folio	£	Date	Particulars	Folio of S.D. Bk.	£
				19..			
				Jan. 21	By Total of Credit sales for period 1-21st Jan. posted from S.D. Bk.	17	46

Dr. CREDIT PURCHASES A/c Folio 46 Cr.

Date	Particulars	Folio of P.D. Bk.	£	Date	Particulars	Folio	£
19..							
Jan. 21	To Total of Credit purchases for period 1-21st Jan. posted from P.D. Bk.	29	95				

Postings to the Personal a/cs are done in the same way. Only the words " To goods " or " By goods " need be included in the Particulars columns. These two words are sufficient to indicate that the transaction is a trading one and not concerned with cash or the purchase or sale of services.

There is no need to refer to the type of goods in the Personal a/cs as this information is already shown in the Day Book or in the purchases or sales invoice for the goods themselves. If invoices are numbered and filed, it is easy to refer to them for the details of trading transactions when desired.

J. Jackson's account, below, illustrates an entry from the Sales Day Book.

Dr.				J. JACKSON A/c		Folio 30		Cr.	
Date	Particulars	Folio No. S.D. Bk.	£	Date	Particulars	Folio	£		
19.. Jan. 1	To goods .	17	10						

Grouping of Cash Sales and Cash Purchases. If transactions belonging to these two classes were dealt with singly instead of in groups, we know that the double-entry record for each would involve one entry in the Cash a/c and a corresponding contra entry in the Cash Purchases a/c or the Cash Sales a/c, according to whether the transaction were a cash purchase or a cash sale. No personal accounts would be opened.

Let us consider the work involved in dealing with the following example of a *series* of transactions covering a period of time—

Jan. 7. Sold goods for cash £25
(being cash sales for week ended 7th January)

In many retail trades nearly all the trading transactions are cash sales. When goods are sold for cash, the salesman usually completes a sale ticket or *invoice* as it is called, to record the article(s) sold, and the sale price. At the same time the amount of cash received is recorded by a cash register, so that the cashier, as well as the salesman, may have a record of the transaction. This routine is carried out for every cash

sale and, at the end of each day, the cash receipts are checked against the amount recorded by the register and against the amount recorded by the day's cash sales invoices. When these two records have been agreed, they are filed, and the amount of the day's cash sales may be recorded in a day book kept for the purpose. These daily entries may be totalled weekly or monthly, according to custom. In the above example, we assume that the *weekly* totals of cash sales are credited to the Cash Sales a/c and debited to the Cash a/c each week.

In our *exercises*, therefore, we shall assume that each transaction relating to a cash sale or cash purchase, is made up of a group of such transactions which have been passed through the Day Books concerned, and that the resulting total is ready for recording in the Ledger.

Folio Numbers. When a transaction is entered directly or indirectly in the Ledger, some method is required to trace the two entries quickly and systematically, either for the purpose of checking the accuracy of the entries or to deal with queries which may arise in connection with the transaction itself.

Let us take, for example, the following transaction—

Jan. 4. The business paid cash to J. Jones, £10

and suppose that the credit entry in the Cash a/c is on page 36 of the Ledger and the debit entry in J. Jones's a/c is on page 100 of the Ledger. For book-keeping purposes a page is referred to as a folio, so that, in this instance, the references would be folio 36 and folio 100 respectively.

If we wished to trace the two entries relating to this transaction, it would probably be quicker to refer to J. Jones's a/c, as his account has a folio of the Ledger to itself. For the purpose of tracing the folio numbers of the *accounts*, the Ledger would no doubt have an alphabetical index in the front part of the book. Reference to the letter "J" would show that Jones's account was on folio 100. This account might contain entries for many transactions, but the one we are looking for is dated 4th January. We also wish to find the corresponding credit entry, which happens to be on folio 36 of the Cash a/c. The simplest method of connecting these two entries is to record the Cash a/c folio number (i.e. 36)

when making the debit entry in Jones's a/c, and vice versa when making the credit entry in the Cash a/c.

Additional columns, called folio columns, are included in the Ledger rulings to cater for folio numbers, and they should always be quoted when transactions are entered in the Ledger, so as to provide proper reference facilities.

Folio columns and numbers have been inserted in the following Ledger a/cs relating to the above transaction, to show how these cross-references are included in the accounts.

<i>Dr.</i>				CASH A/c		<i>Folio 36</i>	<i>Cr.</i>
Date	Particulars	Folio	Amt	Date	Particulars	Folio	Amt
				19.. Jan. 4	By J. Jones a/c	100	£ 10

<i>Dr.</i>				J. JONES A/c		<i>Folio 100</i>	<i>Cr.</i>
19.. Jan. 4	To Cash a/c	36	£ 10				

There are always so many transactions connected with payments and receipts of cash that it is always the practice to keep the Cash a/c in a Ledger by itself. This Ledger is always referred to as the *Cash Book*, although it is only part of the general Ledger which we have been accustomed to use so far. If, in this example, we were using a *separate* Ledger for the Cash a/c, the folio reference in Jones's a/c in the general Ledger would be correctly recorded as C.B. 36.

This method of cross-referencing also applies to the Sales Day Book and the Purchases Day Book, and to *any* subsidiary book that is used for assembling transactions preparatory to their entry in the Ledger. The initials S.D.B. and P.D.B., respectively, may be used for these books. Let us take the following as an example—

Jan. 6. The business sold leather to J. Jones, £20.

If this transaction were first of all entered on folio 72 of the Sales Day Book, then the folio number for this transaction in J. Jones's a/c (Dr. entry) would be S.D.B. 72.

The credit entry would appear in the Cr. Sales a/c, and it would be included in a *total* of credit sales for the period we are considering. If this total were shown on, say, folio 74 of the Sales Day Book and were posted to the Cr. Sales a/c, the folio number for this total in the *Credit Sales a/c* would be S.D.B. 74.

Ledgers, nowadays, are frequently kept on the loose-leaf system or on cards, filed alphabetically in a cabinet ; or, if the accounts are very numerous, the Ledger cards may be filed numerically and traced by means of a card index which is kept in a separate cabinet.

Whereas the various systems of filing are designed for tracing Ledger *accounts* quickly, the system of folio numbers we have been describing is designed to trace the records of *transactions* in those Ledger accounts. When Ledger cards or loose sheets are used with modern book-keeping machines, account columns have to be arranged in an order that suits machine operations. In the following example, the columns are arranged so that transactions are recorded progressively, from left to right.

J. JACKSON A/c

Date	Particulars	Folio	Debit			Credit			Balance		
			£	s.	d.	£	s.	d.	£	s.	d.
19..											
Jan. 4	To Goods . . .	S.D.B. 74	12	-	-				12	-	-
„ 8	By Cash a/c . . .	C.B. 21				8	-	-	4	-	-

In the above illustration a separate column is provided for balances, instead of employing the customary method of bringing them down on the debit or credit side of the account, as the case may be.

Whatever kind of Ledger rulings are used, however, the same double-entry principles of book-keeping apply without exception, and the method of cross-referencing transactions by means of folio numbers also holds good.

The Trading Account. In the early part of this chapter we showed the advantages of dispensing with the simple form of “Leather Store a/c,” and how cash and credit trading transactions were classified into four groups, with the help of separate day books for credit and cash transactions. Each

group had its corresponding a/c in the Ledger so as to display the trading items in a more informative way.

When all business transactions for a particular period have been entered in the Ledger and a Trial Balance has been prepared, we shall have to calculate the gross profit and net profit in the same way as we did previously. As, however, we no longer use a "Leather Store a/c" in which to calculate the gross profit, we have to make a temporary account for the purpose. This account is known as a *Trading a/c* because it is concerned with the calculation of *trading* profit. The account will be made out on a fixed date because the trading profit will be calculated up to that date.

As trading consists of buying and selling, the amounts standing in the Cash Sales a/c, Cr. Sales a/c, Cash Purchases a/c, and Cr. Purchases a/c will have to be transferred to the Trading a/c by the method of transfer described in Chapter II. The stock-on-hand will also be entered on the credit side of the Trading a/c for the purpose of calculating the trading profit.

The Trading a/c is, therefore, only the Leather Store a/c under another name, and transfers to and from the Trading a/c will be carried out precisely as shown in Chapter II. The gross profit will be taken to the Profit & Loss a/c and the net profit transferred to the Capital a/c.

The exercises at the end of this chapter should be worked out in the same order as the one set out below. The first step should be to complete the Sales and Purchases Day Books. The individual transactions recorded in these two books—as they affect the persons concerned—should then be posted to the appropriate personal a/cs in the Ledger.

The totals of these two Day Books can then be posted to the Credit Sales a/c and Credit Purchases a/c respectively.

When the individual transactions have been posted from the two Day Books to the Personal a/cs, all the remaining transactions should be entered in the Ledger a/cs concerned. When this has been done, *and before any transfers are made*, a Trial Balance should be compiled to prove the accuracy of the postings. The Trading a/c, Profit & Loss a/c, and Balance sheet should not be prepared until the Trial Balance has been completed.

Example

Jan.	1.	J. Jones began business as a leather merchant with cash, £750.			£	
"	4.	Bought leather from W. Wilkins			275	
"	7.	Sold leather for cash			136	
"	9.	Sold leather to J. Jackson			70	
"	12.	Paid W. Wilkins for part of leather			100	
"	13.	Bought leather from S. Spence			120	
"	14.	Bought leather for cash			40	
"	19.	Received cash from J. Jackson			70	
"	20.	Sold leather to J. Johnson			120	
"	24.	Settled W. Wilkins's account by paying him cash			175	
"	26.	Sold leather for cash			92	
"	27.	Received cash from J. Johnson			60	
"	29.	Paid S. Spence for part of leather			100	
"	31.	Paid the following expenses—				
	(a)	Month's wages to storeman			16	
	(b)	Southern Railway Co. for carriage on sales of leather			4	
"	31.	The stock of leather on hand at this date valued at			87	

N.B.—Re item on 31st Jan.: "Payment for carriage, £4." No Personal a/c need be opened for The Southern Railway Coy., as the service (i.e. carriage) was supplied and paid for. For book-keeping purposes, this transaction may be regarded as a cash purchase, and dealt with by crediting the Cash a/c and debiting the Service a/c (i.e. a Carriage a/c).

As carriage is a trading expense, like the storeman's wages, it will be transferred to the Profit & Loss a/c so that it may be deducted from the gross profit.

SALES DAY BOOK

Folio 27

Date	Reference (Order No. etc.)	Name	Particulars	Ledger Folio	Amount		
19..					£	s.	d.
Jan. 9		J. Jackson	Leather	27	70	—	—
" 20		J. Johnson	"	28	120	—	—
" 31		Total of Credit sales for January posted to Cr. Sales a/c in Ledger		106	£190	—	—

PURCHASES DAY BOOK

Folio 14

Date	Reference (Order No. etc.)	Name	Particulars	Ledger Folio	Amount		
19..					£	s.	d.
Jan. 4		W. Wilkins	Leather	81	275	—	—
" 13		S. Spence	"	82	120	—	—
" 31		Total of Credit purchases for January posted to Cr. Purchases a/c in Ledger		107	£395	—	—

LEDGER

Dr.		J. JONES CAPITAL A/c		Folio 11		Cr.
19.. Jan. 31	To Balance c/d .		£ 800	19.. Jan. 1 " 31	By Cash a/c " Net profit transferred from Profit & Loss a/c .	£ 750 50 800
			<u>£800</u>	Feb. 1	By Balance b/d .	<u>800</u>

Dr.		CASH A/c		Folio 90		Cr.
19.. Jan. 1	To T. Jones Capital a/c .	11	£ 750	19.. Jan. 12	By W. Wilkins a/c .	£ 100
" 7	" Cash Sales a/c .	108	136	" 14	" Cash Purchases a/c .	109 40
" 19	" J. Jackson a/c .	27	70	" 24	" W. Wilkins a/c .	81 175
" 26	" Cash Sales a/c .	108	92	" 29	" S. Spence a/c .	82 100
" 27	" J. Johnson a/c .	28	60	" 31	" Wages a/c .	110 16
				" 31	" Carriage a/c .	111 4
				" 31	" Balance c/d .	673
			<u>£ 1,108</u>			<u>£ 1,108</u>
Feb. 1	To Balance b/d .		673			

Dr.		J. JACKSON A/c		Folio 27		Cr.
19.. Jan. 9	To Goods .	S.D.B. 27	£ 70	19.. Jan. 19	By Cash a/c .	£ 70

Dr.		J. JOHNSON A/c		Folio 28		Cr.
19.. Jan. 20	To Goods .	S.D.B. 27	£ 120	19.. Jan. 27 " 31	By Cash a/c " Balance c/d .	£ 60 60
			<u>£120</u>			<u>£120</u>
Feb. 1	To Balance b/d .		60			

Dr.		W. WILKINS A/c		Folio 81		Cr.
19.. Jan. 12 " 24	To Cash a/c . " Cash a/c .	90 90	£ 100 175	19.. Jan. 4	By Goods .	£ 275
			<u>£275</u>			<u>£275</u>

THE TRADING ACCOUNT

45

Dr.		S. SPENCE A/c			Folio 82		Cr.
19..			£	19..			£
Jan. 29	To Cash a/c .	C.B. 90	100	Jan. 13	By Goods .	P.D.B. 14	120
" 31	" Balance c/d .		20				
			<u>£120</u>				<u>£120</u>
				Feb. 1	By Balance b/d .		20

Dr.		CREDIT SALES A/c			Folio 106		Cr.
19..			£	19..			£
Jan. 31	To Transfer to Trading a/c .	4	190	Jan. 31	By Total of Cr. sales for January, posted from Sales Day Bk..	S.D.B. 27	190
			<u>£190</u>				<u>£190</u>

Dr.		CREDIT PURCHASES A/c			Folio 107		Cr.
19..			£	19..			£
Jan. 31	To Total of Cr. purchases for Jan., posted from Purchases D.B.	P.D.B. 14	395	Jan. 31	By Transfer to Trading a/c .	4	395
			<u>£395</u>				<u>£395</u>

Dr.		CASH SALES A/c			Folio 108		Cr.
19..			£	19..			£
Jan. 31	To Transfer to Trading a/c	4	228	Jan. 7	By Cash a/c .	C.B. 90	136
			<u>£228</u>	" 26	" Cash a/c .	C.B. 90	92
							<u>£228</u>

Dr.		CASH PURCHASES A/c			Folio 109		Cr.
19..			£	19..			£
Jan. 14	To Cash a/c .	C.B. 90	40	Jan. 31	By Transfer to Trading a/c	4	40
			<u>£40</u>				<u>£40</u>

Dr.		WAGES A/c			Folio 110		Cr.
19..			£	19..			£
Jan. 31	To Cash a/c.	C.B. 90	16	Jan. 31	By Transfer to Profit & Loss a/c.	5	16
			<u>£16</u>				<u>£16</u>

Dr.		CARRIAGE A/c			Folio 111		Cr.
19..			£	19..			£
Jan. 31	To Cash a/c .	C.B. 90	4	Jan. 31	By Transfer to Profit & Loss a/c	5	4
			<u>£4</u>				<u>£4</u>

TRIAL BALANCE OF ACCOUNTS

PREPARED ON 31ST JANUARY, 19..

N.B.—*Not* in the Ledger

Ledger Folio	Title of Account	Debit Balances	Credit Balances
		£	£
	J. Jones' Capital a/c		750
	Cash a/c	673	—
	J. Johnson a/c	60	—
	S. Spence a/c	—	20
	Credit Sales a/c	—	190
	Credit Purchases a/c	395	—
	Cash Sales a/c	—	228
	Cash Purchases a/c	40	—
	Wages a/c	16	—
	Carriage a/c	4	—
		<u>£1,188</u>	<u>£1,188</u>

Stock on hand at this date valued at £87

Dr.	STOCK ON HAND A/c	Folio 8	Cr.
19.. Jan. 31	To Trading a/c 4 £ 87		

Dr.	TRADING A/c FOR MONTH ENDED 31ST JANUARY, 19..	Folio 4	Cr.
	To Transfers from—	£	£
	(1) Cr. Purch. a/c 107 395		
	(2) Cash Purch. a/c 109 40		
	„ Gross profit transferred to P. & L. a/c 5 70		
		<u>£505</u>	
	By Transfers from—		
	(1) Credit Sales a/c 106 190		
	(2) Cash Sales a/c 108 228		
	„ Stock on hand a/c 8 87		
			<u>£505</u>

Dr.	PROFIT & LOSS A/c FOR MONTH ENDED 31ST JANUARY, 19..	Folio 5	Cr.
	To Transfers from—	£	£
	(1) Wages a/c 110 16		
	(2) Carriage a/c 111 4		
	„ Net profit transferred to Captl. a/c 11 50		
		<u>£70</u>	
	By Gross profit transferred from Trading a/c 4 70		
			<u>£70</u>

BALANCE SHEET OF J. JONES'S BUSINESS

AS ON 31ST JANUARY, 19..

LIABILITIES		ASSETS	
J. Jones Capital . . .	£ 800	Stock on hand . . .	£ 87
<i>Creditors—</i>		<i>Debtors—</i>	
S. Spence . . .	20	J. Johnson . . .	60
		Cash . . .	673
	<u>£820</u>		<u>£820</u>

EXERCISES

Ledger accounts, Trial Balance, Trading and Profit and Loss Accounts and Balance Sheet should be prepared. Purchases and sales are on credit unless cash is mentioned.

✓
No. 1

D. Riley began to trade on the 1st September, with a capital of £400 in cash. The following were his transactions for the month of September—

- Sept. 2. Bought goods for cash, £20.
 „ 3. Bought from L. Gordon & Co.—
 3 bedroom suites at £30 each; and
 4 dining-room suites at £27 10s. each.
 „ 8. Sold for cash, goods valued at £25.
 „ 10. Bought goods for cash, £45.
 „ 12. Sold G. Brown & Co.—
 2 bedroom suites at £45 each; and
 1 dining-room suite at £37 10s.
 „ 15. Sold goods for cash, £30.
 „ 20. Bought from L. Greenwood, goods £130.
 „ 27. Bought from L. Gordon & Co., goods £70.
 „ 29. Paid L. Gordon & Co. cash amounting to £200.
 „ 30. Paid the following expenses—
 Wage of clerk and storeman, £20.
 Transport charges, £5.
 „ 30. Stock of goods on hand at this date valued at £350.

Answer : T.B. totals, £782 10s.; G.P., £67 10s.; N.P., £42 10s.;
 B/S totals, £642 10s.

No. 2 ✓

On the 1st December, 19.., John Broad commenced business as a wholesale and retail tobacconist with cash £1,000. His transactions for December were as follows—

- Dec. 1. Bought tobacco and cigarettes for cash, £100.
 „ 3. Sold to A. Jones, tobacco £10, cigarettes £20.
 „ 5. Purchased from Wilkinson & Co., matches £5.
 „ 9. Paid out of cash—stamps £1 10s.
 „ 13. Sold tobacco for cash, £15.
 „ 20. Sold to G. Greenwood, cigarettes £35.
 „ 27. Purchased from the Swedish Tobacco Co., tobacco £140.
 and cigarettes £95.
 „ 30. Paid Wilkinson & Co. £5.
 „ 30. Received cash from A. Jones, £25.
 „ 31. Paid out of cash—
 Wages, £17;
 Rent, £9.
 „ 31. Stock of goods on hand at this date valued at £300.

Answer : T.B. totals, £1,315 ; G.P., £40 ; N.P., £12 10s. ; B/S totals, £1,247 10s.

No. 3 ✓

Enter the following transactions of K. Henderson in his books—

- Jan. 1. K. Henderson began business with cash, £600.
 „ 3. Bought goods from Hudson & Co., £350, and Imperial, Ltd., £100.
 „ 4. Bought goods for cash, £75.
 „ 5. Sold R. North goods, £100.
 „ 9. Paid Hudson & Co., £125.
 „ 12. Sold goods for cash, £40.
 „ 17. Sold goods to Imperial, Ltd., £40.
 „ 19. Bought goods from J. Hargreaves & Co., £173.
 „ 20. Paid cash for rent, £20.
 „ 25. Paid Hudson & Co., £150.
 „ 27. Paid Imperial, Ltd., for part of goods supplied, £30.
 „ 30. Received cash from R. North, £100.
 „ 31. Paid the following expenses—
 (a) Month's wages to clerks, £35.
 (b) L.M.S. Railway Co., for carriage on goods sold, £5.
 „ 31. Stock of goods on hand valued at £600.

Answer : T.B. totals, £1,058 ; G.P., £82 ; N.P., £22 ; B/S totals, £900.

No. 4

L. B. Johnson began to trade in household furniture on the 1st December, 19.., with capital of £400 in cash.

- Dec. 3. Bought from Wiggins & Co.—
 2 oak bedroom suites at £20 each ;
 3 Chesterfield suites at £25 each ;
 4 kitchen chairs at 25s. each.
- „ 7. Bought furniture for cash, £40.
- „ 8. Sold furniture for cash, £60.
- „ 12. Sold K. Hawkins & Co.—
 2 oak bedroom suites at £35 each ;
 2 kitchen chairs at £2 each.
- „ 15. Bought from Brotherton & Co. furniture, £150.
- „ 18. Bought furniture for cash, £60.
- „ 22. Paid Wiggins & Co., £120.
- „ 23. Sold to Brown, furniture, £60.
- „ 27. Paid Brotherton & Co. for part furniture supplied, £120.
- „ 31. Received cash from K. Hawkins, £60.
- „ 31. Paid wages for month, £15.
- „ 31. Paid rent of premises for December, £17.
- „ 31. Value of stock of furniture, £220.

Answer : T.B. totals, £624 ; G.P., £44 ; N.P., £12 ; B/S totals, £442.

No. 5

W. Newson began business on the 1st January, 19.., with capital consisting of cash, £250, and goods, £50. His transactions for the month were as follows—

- Jan. 2. Bought goods for cash, £100.
- „ 3. Sold goods to K. Johnson, £70.
- „ 9. Bought goods from G. Percy & Co., £140.
- „ 12. Sold goods for cash, £25.
- „ 17. Paid for lorry hire, £3.
- „ 20. Bought goods for cash, £60.
- „ 27. Sold goods to T. Jones, £80.
- „ 29. Received cash from K. Johnson, £70.
- „ 31. Paid G. Percy & Co. £120 on account.
- „ 31. Sold goods to K. Johnson, £90.
- „ 31. Paid storeman's wages, £15.

Stock of goods on hand at end of month valued at £90.

Answer : T.B. totals, £585 ; G.P., £5 ; Net loss, £13 ; B/S totals £307.

No. 6

H. Atkins began business as a bootmaker with £540 in cash. He commenced to trade on the 1st January, 19.., and his transactions for January were as follows—

- Jan. 3. Bought leather from P. Johnson, £200.
- „ 5. Bought leather for cash, £25.
- „ 7. Sold leather for cash, £40.
- „ 10. Sold leather to R. Robinson, £140.
- „ 13. Paid P. Johnson, £200.
- „ 17. Sold leather for cash, £15.
- „ 20. R. Robinson paid cash, £140.
- „ 25. Bought leather from J. Thomas, £130.
- „ 27. Bought leather for cash, £35.
- „ 31. Sent cash to J. Thomas, £90.
- „ 31. Paid wages of employees, £25.
- „ 31. Paid rent of premises, £10.
- „ 31. Stock of leather on hand, £250.

Answer : T.B. totals, £775 ; G.P., £55 ; N.P., £20 ; B/S totals, £600.

CHAPTER IV

THE Bank a/c—Current Account—Paying-in Book—Cheques—Pass Book—Office Cash—Trade Discount and Cash Discount—Periods of Credit—Proprietor's Drawings—Worked Exercise—Exercises.

The Bank Account. So far, we have assumed that the business man kept all his cash at his place of business. This, of course, is not the case. Apart from the danger of losing it by doing so, there are good reasons why the ordinary business man keeps as little as possible at his place of business. In the first place, however, he will have to keep his surplus cash with someone who is prepared to accept it at all times and from whom he can get it immediately he wants it. That is to say, it will have to be available *on demand*. We know that bankers provide facilities of this kind and, in so doing, render indispensable services to the business community. For these *services* banks charge commission according to the amount and kind of services rendered.

Let us suppose that on—

Jan. 1. J. Jones began business with £700, which he placed with a local bank.

Jan. 2. He withdrew £50 from the bank for payment of wages and making petty disbursements.

Current Account. In order to place money with his bank, Jones will have to open an account there. Bank accounts are of two kinds, according to the class of service required.

- (i) As a business man, Jones will want to make *frequent* deposits and withdrawals of cash in order to satisfy his *current* needs. For current needs, therefore, Jones will require what is called a *current account*.
- (ii) If Jones had surplus funds *which he did not need for immediate business purposes*, he could deposit them with his banker, who would allow him interest on them. In such a case, Jones would have a *deposit account*.

As the name “deposit a/c” implies, funds left with the bank on deposit terms cannot be withdrawn on demand or short notice. A longer notice has to be given as the banker

lends such money to other customers for considerable periods. It is only by doing so that he can afford to give interest on funds left with him. So far as our example is concerned, Jones will open only a current account at the bank.

Paying-in Book. Transactions between Jones and his banker will be carried out mainly through the medium of forms. For the purpose of paying in cash, the banker will give Jones a book of blank forms called a *paying-in book*, and he will complete a paying-in form (or paying-in slip) every time he pays in cash. A specimen page of this book is shown below.

TOP COPY.		<i>Current Account.</i>		
LLOYDS BANK LIMITED ELTHAM, S.E. 9				
20th June, 19..				
CREDIT.		J. JONES 14 NEW STREET, ELTHAM		
Silver		£	s.	d.
Copper		2	—	—
Bank Notes { 20s.....5.....		5	—	—
{ 10s.....15.....		7	10	—
Other Notes		—	—	—
Total Cash		14	12	6
Cheques, Bills, Postal Orders, etc.				
Ch.—Walters & Co.		£	s.	d.
„ Morton		3	7	6
„ Wiggin		2	12	6
		7	6	—
		13	6	—
Paid in by.. F.A.M.....		£	27	18 6

Each page of the paying-in book will have a duplicate page, so that the banker may tear off and retain the top copy, and Jones retains the duplicate copy. Jones must sign each

paying-in form so as to give the banker proper authority to accept the cash. Each copy of the paying-in form will be stamped by the banker at the time the cash is paid in so that payments may be verified subsequently by banker and customer.

The transaction on 1st January may therefore be considered as the handing over of Jones's business capital (in the form of cash) to the bank. The entries in *Jones's Ledger* will be as follows—

<i>Dr.</i>		CAPITAL A/c		<i>Cr.</i>
	£	19.. Jan. 1	By Bank a/c	£ 700

<i>Dr.</i>		BANK A/c		<i>Cr.</i>
19.. Jan. 1	To Capital a/c	£ 700		

Cheques. Jones will want to draw out cash from day to day. For this purpose the bank will provide him with a book of forms (i.e. a cheque book) for use when he wishes to withdraw cash. Jones will pay the bank for these cheques, each of which bears a 2d. embossed stamp. For example, a book of 25 cheques will cost him 4s. 2d. The banker will also need a specimen of J. Jones's signature in order that he may be certain that the signatures on Jones's cheques are really his and not of some unauthorized person. For this purpose, Jones will write a specimen of his signature in the bank's signature book, so that his real signature is always available at the bank for reference.

Bankers must have *written* instructions from their customers when the latter wish to withdraw cash. For the sake of uniformity, banks have developed a system of using formal letters or blank forms, known as cheques. When completed, a cheque is a letter of instruction to the banker to pay on demand the amount stated, to the person named on the face of the cheque or to anyone nominated (i.e. ordered) by him

or to a subsequent holder, for value. If a cheque is drawn up in the form of a letter to a banker, the meaning of its constituent parts becomes quite clear, e.g.—

9, HIGH STREET SIDCUP 15th January, 19.
To the Bank Manager Westminster Bank Sidcup
Dear Sir, Please pay W. Watkins, or to his order, the sum of twenty pounds.
Yours faithfully, J. JONES.

By crossing out the words indicated above, the letter is reduced to a *formal* letter or cheque. Such a cheque is known as an *order cheque* because it is payable to a specified person or to his order.

15 January, 19..	
B 1294731	No. 12473
Westminster Bank Sidcup Branch	
Pay W. Watkins	<div style="border: 1px solid black; display: inline-block; padding: 5px; text-align: center;">2d.</div>
or order	
Twenty Pounds _____	
£20 _____	J. JONES.

Documents, like cheques, etc., are said to be “drawn,” and so Jones is called the *drawer*. The cheque is addressed to the *banker* and so the banker is the *drawee*. W. Watkins is to receive the cash, and so he is known as the *payee*.

CHEQUES

Let us suppose Watkins had bought goods value £30 from, say, T. Brown, and that the latter agreed to accept Watkins's cheque in part settlement of the debt. In that case Watkins would order the banker to pay T. Brown, instead of himself. T. Brown could, if he wished, also pass on the cheque to another person in the same way, instead of cashing the cheque at the bank. This is the meaning of the words "or order." It implies that Jones gives the original payee (Watkins) the right to pass it on to another, who will thus become entitled to claim payment at the bank.

Watkins can indicate this to the banker in one of two ways—

- (1) by placing his signature on the *back* of the cheque—
W. Watkins ; or
- (2) he can make the transfer of the cheque to Brown more secure if he adds words to ensure this.

Such additional safety can be given by making it necessary for Brown to add his signature on the back of the cheque. This is done by adopting the following form of wording—

Pay T. Brown or order
W. Watkins.

If Watkins uses this latter form, Brown will have to put his signature under that of Watkins when he cashes it at the bank or transfers it to another person. A payee's signature on the back of a cheque is known as an *endorsement*. An endorsement may take the form of the payee's signature only, as in (1), when it is known as a *general* endorsement ; or the payee's signature may be accompanied by a special instruction to the banker, as in (2), when it is known as a *special* endorsement.

The paying banker, who acts for Jones, will examine the back of the cheque to see that the signature on the back is that of the payee named on the face of the cheque. If Watkins passed on the cheque to T. Brown, the latter would require Watkins's signature on the back of the cheque as proof that it had been transferred to him in the ordinary way.

If Jones wished to withdraw cash from the bank, as he did on 2nd January, he would draw a cheque and write the word "self" on the face of the cheque (i.e. *Pay self or order*) because he would be the *payee*. He would, of course, have to put his

own signature on the back of the cheque so that the bank could certify that he received payment.

When, on 2nd January, Jones withdrew £50 for business purposes, he would draw a cheque to "self" for this amount. For book-keeping purposes, the transaction shows that *his* Bank a/c gave £50, and that the Office Cash a/c received this amount. The entries in J. Jones's Ledger would appear as follows—

Dr.			BANK A/c	Cr.		
19..				19..		
Jan. 1	To Capital a/c	£ 700		Jan. 2	By Office Cash a/c	£ 50

Dr.			OFFICE CASH A/c	Cr.		
19..						
Jan. 2	To Bank a/c	£ 50				

Pass Book. Every branch bank maintains personal a/cs for its customers to record transactions it carries out on their behalf. For example, J. Jones will want to know, from time to time, that the account in his name at the bank corresponds with that which he keeps in his own Ledger. For this purpose the bank periodically sends him a copy of the Bank Ledger a/c so that Jones may compare it with the account he keeps at his office. These copies are called Statements of Account. It was the custom for a banker to copy the Ledger entries into a small book, called a *pass book*—because it passed from banker to customer—but banks now use loose-leaf statements instead. These are often prepared with the help of accounting machines. It is also the custom for banks to return customers' used cheques to them so that the latter may verify the payments and also keep them as proof of payments.

There is also the question of how J. Jones will record the transaction relating to the cheque book, which he received. If the book contained 25 cheques, the bank would charge him 4s. 2d. for it. The most convenient method of payment is for the bank to deduct the amount from Jones's Bank a/c. As the supply of the book is the supply of a service, the expense or cost will be borne by Jones's business. If it is classed as an office expense, the transaction will be dealt with in Jones's

Ledger as a cash transaction by crediting the Bank a/c and debiting an Office Expenses a/c—

Dr.		BANK A/c						Cr.		
19.. Jan. 1	To Bank A/c . .	£	s.	d.	19.. Jan. 2	By Office Cash A/c .	£	s.	d.	
		700	—	—	" 2	" Office Expenses A/c (cheque book)	50	—	—	
								4	2	

Dr.		OFFICE EXPENSES A/c						Cr.		
19.. Jan. 2	To Bank a/c . . (cheque book)	£	s.	d.						
		—	4	2						

It will be as well to mention here that the term "cash" includes coin, notes, postal orders, stamps, money orders, cheques, and drafts (i.e. cheques) issued by Government departments, etc.

In this country the cheque is now almost exclusively used for making payments of all kinds, except for small items, as it saves the use of coin and notes.

For reasons of safety, *all* "cash" should be paid into the bank on the day it is received.

Office Cash. So far as *office cash* is concerned, it is usual to get *all* cash for office purposes from the bank and *not* to make use of receipts from cash sales, etc., in order to add to the balance of office cash.

When cash is required for office use, cheques are drawn for that purpose, as illustrated in the transaction dated 2nd January.

The *Office Cash a/c* is used to record payments of small items of expense for which it may not be worth while to pay by cheque. Such items include carriage, postage and insurance stamps, travelling expenses, small repairs, etc. If columns are added to the credit side of the Office Cash a/c, these items can be classified into groups, so as to record the amount spent on each *class* of item, month by month. The extension columns can then be totalled at the end of each month in order that the various expense accounts may be *debited* with these *monthly totals* instead of with individual items. In this way, the Office Cash a/c, as well as being a Ledger a/c, is made to do the work of a Day Book. It should be remembered that

the *contra credit* entries for these monthly totals have already been recorded individually in the Office Cash a/c.

This system of keeping the Office Cash a/c—or *Petty Cash a/c* as it is usually called—is known as the *imprest* system, and it will be dealt with in more detail in a later chapter when we consider the further classification of expense-services.

The Office Cash a/c is generally known as the Petty Cash a/c and the Bank a/c is referred to as the Main Cash a/c, or, more shortly, as the Cash a/c.

Trade Discount and Cash Discount. (a) *Trade Discount.* It is unusual for manufacturers and wholesalers to sell their goods to the general public. To do so, they would need their own shops or other distributing agencies and the expense of selling goods in small quantities is often more costly than selling in bulk to retailers.

As we know, retail distribution is mainly in the hands of small traders who come into direct contact with the public and so form an essential link between the producers on the one hand and consumers (i.e. the general public) on the other. Retailers provide the *service of distribution*, for which they must earn sufficient trading profits to meet their *distribution expenses*, and leave an adequate margin of profit for themselves.

One of the chief methods by which manufacturers and wholesalers persuade retailers to undertake this work of general distribution on their behalf is to offer them allowances off the prices which are to be charged to the public—i.e. the list prices. These reductions are made to retailers *at the time purchases are made*, and the amount of reduction allowed sometimes depends on the volume of purchases. For example, it will usually pay a manufacturer to give better “trade terms” to a large retailer than to a small one, because it is more economical for a manufacturer to sell in large quantities.

These reductions are known as *trade discounts* and are usually expressed as percentage reductions off published sale prices which appear in their *trade catalogues*. In this way the prices shown in their catalogues need not be altered from time to time so as to agree with new prices, as manufacturers, etc., need only make the necessary adjustments to their trade discounts to make allowances for these price changes.

Trade discounts are given to *trade distributors* only (i.e.

to retailers) and hence the real purchase price of an article *to a retailer* is the price named in his purchase invoice, *less* the amount of trade discount allowed to him. As he has to pay the net amount only, it is this amount which is used for book-keeping purposes.

Let us take the following example—

Jan. 3. J. Jones bought leather from G. Hyde for £50, less 30% trade discount.

J. Jones would pay £50 less £15 trade discount, and so the amount in his Purchases Day Book would be £35. J. Hyde's a/c would appear in Jones's Ledger as follows—

Dr.		J. HYDE A/c				Cr.	
				19..		P.D.B.	£
				Jan. 3	By Goods	34	35

Finally, it should be remembered that the granting of trade discount has nothing to do with the payment of cash. It is entirely a trading matter and is one of the chief sources from which the retailer gets his income.

(b) *Cash Discount.* Apart from those traders who are concerned with the distribution of perishable commodities for public consumption, like fish, vegetables, etc., business concerns cannot, as a rule, do their trading on a cash basis on account of differences in the scale of distribution.

For instance, it would hardly be convenient for a small retailer to make an immediate payment for a large consignment of boots and shoes, particularly if most of his working capital were already in the form of stock-in-trade. Whereas the manufacturer or wholesaler sells his wares in large quantities, the retailer has to sell his by the pair, etc., and it might take him some time to get enough cash from his cash sales to pay for his purchase.

If debtors do not settle their accounts when they are expected to do so, a seller may be put to much inconvenience and loss, particularly if, on this account, he is obliged to borrow from his banker at ordinary rates of interest. If industry and trade are to be carried on smoothly, it is essential that the periods of credit allowed to debtors should be more or less standardized so as to suit both buyers and sellers.

Periods of Credit. A prospective buyer usually wants to know about the period of credit (i.e. the length of time allowed for payment) when he makes his trade inquiries. With a view to getting buyers to settle their accounts promptly, many traders offer to deduct a small percentage from the amounts owing *if they pay within the period of credit prescribed for such offer*. When this is the case, a customer is allowed to deduct the requisite amount from his debt *when he makes his payment*.

This allowance is known as *cash discount* and is usually calculated on a percentage basis.

When cash discount is given, sellers have to fix conditions or terms—called “terms of settlement”—on which they can afford to grant such discount. In some trades, for instance, sellers may allow $2\frac{1}{2}$ per cent cash discount if payment is made within 14 days from the date on which the customer receives a request for payment (called a *statement of account*), or 1 per cent for payment within a month of that date, etc. Settlement terms are often quoted in traders’ invoices, as, for example—

TERMS : $2\frac{1}{2}\%$ for cash within 14 days ; OR

TERMS : 1% one month, etc.

Many trades are conducted on the basis of one month’s credit, but the period allowed for settlement varies from trade to trade and by arrangement between seller and buyer.

In order to illustrate the meaning of the term “one month’s credit,” let us suppose that in January (say, the 17th), J. Jones sold goods to J. Hyde for £35. At the end of January, Jones would send Hyde a statement of a/c requesting payment. As the goods were sold on one clear month’s credit, J. Hyde would be expected to pay before the end of February or before the end of the first week in March, according to arrangement. If it were Jones’s custom to allow $2\frac{1}{2}$ per cent for cash discount for settlements within the credit period, Hyde could get this only if he paid by the end of February, or before the expiry of the few additional days in March, if these were allowed.

If Hyde settled the account on, say, 25th February, he would be allowed to deduct $2\frac{1}{2}$ per cent from the £35 (i.e. 17s. 6d.) and would *settle the debt* by sending a cheque for £34 2s. 6d.

It is sometimes difficult for students to see what benefit the seller gets in return for giving discount. In the above transaction, for example, Jones must have received some benefit or service, for he would not have willingly incurred an expense of this kind without getting something substantial in return.

What is this benefit or service? Such things as labour, carriage, lighting, water supply, etc., are easily recognizable as services, and it is easy to see what the business man gets for spending money on them.

There are other benefits, however, which are not so easily recognizable as services. One of the most important of these is the service of “promptness in the settlement of trading debts.” It is quite evident that Jones would *receive* an injury or *disservice* if Hyde kept him waiting many months before he settled his account and so, conversely, Jones would receive a benefit or service if he paid punctually. Hence, a worthwhile reward, in the form of cash discount, can be likened to a cash bonus which an employer pays a worker for doing a job in less time than that *stipulated*. The worker saves his employer’s time and this is paid for accordingly. In the same way, Jones can afford to allow Hyde cash discount if the latter settles within the credit period, because the prompt payment of cash enables Jones to buy more goods *promptly*, without having to borrow money from the bank to do so. The more frequently Jones can turn his goods into cash and back again into goods, the more profitable his trading is likely to be. This is one reason why Jones prefers to receive £34 2s. 6d. promptly to £35 at some indeterminate future date.

We can now illustrate the method of recording the Ledger entries for cash discount, by entering the two following transactions in the books of J. Jones—

- Jan. 17. J. Jones sold leather to J. Hyde for £35.
- Feb. 25. J. Hyde paid for the goods bought on Jan. 17, and was allowed 2½ per cent discount.

On Jan. 17. J. Hyde’s account would appear as follows—

Dr.		J. HYDE A/c						Cr.		
19..										
Jan. 17	To Goods	S.D.B.	£ 35	s. -	d. -					
		27								

This shows J. Hyde as a debtor in Jones's Ledger. On 25th February, Jones *settled his account* by a payment of £34 2s. 6d. This means that he is no longer a debtor. The receipt of the *cash* would be shown in the two accounts concerned, as follows—

Dr.		J. HYDE A/c						Cr.		
19.. Jan. 17	To Goods	S.D.B. 27	£ 35	s. —	d. —	19.. Feb. 25	By Cash a/c	£ 34	s. 2	d. 6

Dr.		CASH A/c						Cr.		
19.. Feb. 25	To J. Hyde a/c		£ 34	s. 2	d. 6					

If, however, we left Hyde's account as it appears above, it would have a debit balance of 17s. 6d., because the *Dr.* side exceeds the *Cr.* side by that amount. But Hyde is no longer a debtor because Jones agreed that £34 2s. 6d. should settle his account ; and hence there should be no remaining balance in his account. We have, therefore, to cancel this 17s. 6d. debit balance and do this by *crediting* his account with this amount and making a corresponding debit entry in a Cash Discount a/c, which we open for the purpose.

These entries are in accord with our explanation. Hyde is allowed to *part with* or cancel a small portion of his debt (to the extent of 17s. 6d.) and so his account is credited. In return, Jones *received* the benefit of prompt payment. The term "cash discount" is used to describe the *cost* or expense of this benefit and, *as the object of book-keeping is to record the cost of transactions in goods and services*, the contra *debit* entry is made in the Cash Discount a/c.

The two entries in respect of cash discount will appear as under—

Dr.		J. HYDE A/c						Cr.		
19.. Jan. 17	To Goods	S.D.B. 27	£ 35	s. —	d. —	19.. Feb. 25	By Cash a/c	£ 34	s. 2	d. 6
						" 25	" Cash Dis- count a/c		17	6

[illegible]

Dr.		DISCOUNT A/c					Ledger Folio 2		Cr.		
			£	s.	d.				£	s.	d.
19..	To Total disc't										
Feb. 28	for mth. posted										
	from Cash a/c	C.B.									
		44		17	6						

If, on 10th January, J. Jones had *bought* goods from T. Atkins for £40, and the account was settled on 17th February, £1 discount being allowed, the entries in Jones's books (shown below) would be the reverse of those for Jones and Hyde—

Dr.		T. ATKINS A/c					Ledger Folio 86		Cr.		
Date	Particulars	Folio	Cash			Date	Particulars	Folio	Cash		
19..	To Cash a/c	C.B.	£	s.	d.	19..	By Goods	P.D.B.	£	s.	d.
Feb. 17		24	39	-	-	Jan. 10		14	40	-	-
" 17	„ Discount	24	1	-	-						

Dr.		CASH A/c					Folio 24		Cr.		
Date	Particulars	Fo.	Dis.	Cash		Date	Particulars	Fo.	Dis.	Cash	
			£	s.	d.				£	s.	d.
			£	s.	d.	19..	By T. Atkins	L.	£	s.	d.
						Feb. 17	a/c	86	1	-	-
									39	-	-

Proprietor's Drawings. In addition to a proprietor having to make frequent withdrawals of cash to meet the current needs of *his business*, he may also have to rely on regular withdrawals of cash, and perhaps goods, from the business to meet his *personal needs*.

Such drawings may be made weekly or monthly for meeting his current living expenses, and he may also withdraw at other times to meet particular private expenses, like the payment of income tax, the expenses of illness, holidays, etc.

His business experience will enable him to decide how much he ought to withdraw from the business for weekly or monthly living expenses, and he will have to take care to relate his personal drawings to his estimated profits so as not to embarrass his business.

Expenditure of business funds may be classified as follows—

(a) Expenditure on items connected with *running* the business (i.e. meeting ordinary expenses of carrying on the manufacture and sale of its products) and *developing* the

business (e.g. expenditure on additions or improvements to the business).

(b) Expenditure on items *not connected with running* or developing the business. Withdrawals of cash or goods by the proprietor for his own private and personal needs come within this class. These may all be reckoned as withdrawals of *Capital* and treated as such in the accounts. Instead, however, of debiting a proprietor's drawings directly to his Capital a/c, it is preferable to use a subsidiary account during the year, called a *Drawings a/c*, so as not to burden the debit side of the Capital a/c with too much detail. His weekly or monthly drawings are debited to this Drawings a/c, and the account is closed at the end of the year by transferring the annual drawings to the Capital a/c as shown in the following example.

Withdrawals of *goods* from the business for the proprietor's personal use are similarly dealt with—by crediting the Credit Sales a/c (through the medium of the Sales Day Book) and debiting the Drawings a/c. Care must be taken not to debit the Profit & Loss a/c with any *private* expenses, as this account is for business expenses and business gains only.

Example. On 1st January, W. Jackson's capital stood at £3,000. He drew weekly cheques of £6 for living expenses on 7th, 14th, 21st, and 28th January. On 17th January he took goods value £4 from the business for his own use, and on 20th January he paid income tax on the previous year's business profits, by cheque, £145. The net profit for January amounted to £105.

Show the Drawings a/c and Capital a/c.

Dr.				W. JACKSON'S DRAWINGS A/c				Cr.	
19..		Folio	£	19..		Folio	£		
Jan. 7	To Cash a/c	C.B.	6	Jan. 31	By Transfer to				
„ 14	„ Cash a/c	C.B.	6		Capital a/c		173		
„ 17	„ Goods	S.D.							
		Bk.	4						
„ 20	„ Cash a/c								
	(for in-								
	come tax)	C.B.	145						
„ 21	„ Cash a/c	C.B.	6						
„ 28	„ Cash a/c	C.B.	6						
			<u>£173</u>						<u>£173</u>

Dr.		W. JACKSON'S CAPITAL A/c				Cr.	
19..			£	19..			£
Jan. 31	To Transfer from			Jan. 1	By Balance b/d		3,000
	Drawings a/c		173		" Net profit for		
" 31	" Balance c/d		2,932	" 31	month, trans-		
					ferred from P.		105
					& L. a/c		
			<u>£3,105</u>				<u>£3,105</u>
				Feb. 1	By Balance b/d		2,932

Worked Exercise. The following exercise illustrates the matters dealt with in the present chapter. In the exercises that follow, cash receipts should be treated as being paid into the bank on the day of receipt.

- Jan. 1. J. Watkins began business as a furniture dealer with a capital of £750, which was placed in the bank.
- " 2. He withdrew £30 from the bank to meet petty cash requirements.
- " 4. Bought furniture from Messrs. Eastman & Sons for £140, less 30% trade discount.
- " 5. Sold furniture to T. Dawes for £38.
- " 7. Bought furniture from T. Beach & Sons for £240, less 25% trade discount.
- " 9. Bought office stationery and paid by petty cash, £2 5s.
- " 12. Cash sales for week amounted to £78 10s., which was banked.
- " 14. Sold furniture to J. Brown & Co., for £120, less 10% trade discount.
- " 17. Settled Messrs. Eastman & Sons' account by cheque, less 2½% cash discount.
- " 21. Bought furniture for cash and paid by cheque, £75.
- " 25. Cash sales for past fortnight paid into bank, £85.
- " 27. T. Dawes paid his account by cheque and was allowed 2½% discount.
- " 29. Paid carriage on furniture sold on 5th January from petty cash, £1 10s.
- " 30. Sent cheque to T. Beach & Sons for £156 and was allowed £4 discount.
- " 31. Received a statement of account from T. Sawyer, for repairs to premises, £5.
- " 31. J. Watkins drew and cashed a cheque for £20 to cover his private expenses for January.
- " 31. Paid storeman's wages for past month from petty cash, £16.
- " 31. Furniture in hand at this date valued at £110.

Notes on exercise.

- Jan. 9. Office stationery was bought for *service* and not for sale, and so its cost is recorded in an Expense a/c.
31. Repairs is another form of service. As Sawyer provided this on credit, his account is credited with the cost of the repairs.

WORKED EXERCISE

67

PURCHASES DAY BOOK

Folio 37

Date	Name	Particulars	Ledger Folio	£	s.	d.
19..						
Jan. 4	Messrs. Eastman & Sons	Furniture	130	98	-	-
" 7	T. Beach & Sons	"	131	180	-	-
" 31	Total credit purchases for January posted to Cr. Purchases a/c		71	£278	-	-

SALES DAY BOOK

Folio 84

Date	Name	Particulars	Ledger Folio	£	s.	d.
19..						
Jan. 5	T. Dawes	Furniture	74	38	-	-
" 14	J. Brown & Co.	"	75	108	-	-
" 31	Total credit sales for January, posted to Cr. Sales a/c		100	£146	-	-

LEDGER

Dr. J. WATKINS CAPITAL A/c Folio 1 Cr.

Dr.		£	s.	d.	Cr.		£	s.	d.
19..					19..				
Jan. 31	To Transfer from Drawings a/c	82	20	-	Jan. 1	By Cash a/c	12	750	-
" 31	" Balance c/d		777	5	" 31	" Net profit transferred from P. & L. a/c	21	47	5
			£	797			£	797	5
				5	Feb. 1	By Balance b/d		777	5

Dr. CASH A/c Folio 12 Cr.

Date		Fol.	Dis-count	Cash	Date		Fol.	Dis-count	Cash
19..					19..				
Jan. 1	To J. Watkins Capital a/c	1		750	Jan. 2	By Petty Cash a/c	3		30
" 12	" Cash Sales a/c	98		78	" 17	" Eastman & Sons a/c	130	2	9
" 25	" Cash Sales a/c	98		85	" 21	" Cash Purchases a/c	99		75
" 27	" T. Dawes	74	19	37	" 30	" T. Beach & Sons a/c	131	4	-
" 31	Total of discount for Jan. posted to debit of Discount a/c	78		19	" 31	" Drawings a/c	82		156
					" 31	Total of discount for Jan. posted to credit of Discount a/c	78	6	9
					" 31	By Balance c/d			574
				£					£
				950					950
Feb. 1	To Balance b/d			574					

Dr.		PETTY CASH A/c					Folio 3		Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 2	To Cash a/c	12	30	-	-	Jan. 9	By Office Expenses a/c (stationery)	77	2	5	-
						" 29	" Carriage a/c	79	1	10	-
						" 31	" Wages a/c	80	16	-	-
						" 31	" Balance c/d		10	5	-
			£30	-	-				£30	-	-
Feb. 1	To Balance b/d		10	5	-						

Dr.			CASH SALES A/c					Folio 98		Cr.		
19..			£	s.	d.	19..			£	s.	d.	
Jan. 31	To Transfer to Trading a/c	20	163	10	-	Jan. 12	By Cash a/c	12	78	10	-	
						" 25	" Cash a/c	12	85	-	-	
			£ 163	10	-				£ 163	10	-	

Dr.			CASH PURCHASES A/c						Folio 99		Cr.	
19..			£	s.	d.	19..			£	s.	d.	
Jan. 21	To Cash a/c	12	75	-	-	Jan. 31	By Transfer to Trading a/c	20	75	-	-	
			£75	-	-				£75	-	-	

Dr.			CREDIT SALES A/c			Folio 100			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c	20	146	-	-	Jan. 31	By Total of Credit Sales for Jan., posted from S. Day Book	S.D.B. 84	146	-	-

Dr.			CREDIT PURCHASES A/c					Folio 71		Cr.	
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total of Cr. Purchases for Jan. posted from P. Day Book	P.D.B. 37	278	-	-	Jan. 31	By Transfer to Trading a/c	20	278	-	-

Dr.			MESSRS. EASTMAN & SONS A/c						Folio 130		Cr.	
19..			£	s.	d.	19..				£	s.	d.
Jan. 17	To Cash a/c	12	95	11	-	Jan. 4	By Goods	P.D.B.	37	98	-	-
" 17	„ Discount	12	2	9	-							
			£98	-	-					£98	-	-

Dr.			T. BEACH & SONS A/c						Folio 131		Cr.	
			£	s.	d.				£	s.	d.	
19..						19..						
Jan. 30	To Cash a/c	12	156	-	-	Jan. 7	By Goods	P.D.B.	180	-	-	
" 30	" Discount	12	4	-	-			37				
" 31	" Balance c/d		20	-	-							
			£ 180	-	-				£ 180	-	-	
						Feb. 1	By Balance b/d		20	-	-	

WORKED EXERCISE

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Dr.			T. DAWES A/c			Folio 74			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 5	To Goods .	S.D.B. 84	38	-	-	Jan. 27	By Cash a/c	12	37	1	-
						" 27	" Discount	12		19	-
			£38	-	-				£38	-	-

Dr.			J. BROWN & CO., A/c			Folio 75			Cr.		
19..			£	s.	d.						
Jan. 14	To Goods .	S.D.B. 84	108	-	-						

			T. SAWYER A/c			Folio 76			Cr.		
						19..			£	s.	d.
						Jan. 31	By Repairs a/c	81	5	-	-

Dr.			OFFICE EXPENSES A/c			Folio 77			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 9	To Petty Cash a/c (stationery)	3	2	5	-	Jan. 31	By Transfer to P. & L. a/c	21	2	5	-

Dr.			DISCOUNT A/c			Folio 78			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total of discount for Jan., posted from Cash Book	12		19	-	Jan. 31	By Total of discount for Jan. posted from Cash Book	12	6	9	-
31	" Balance transferred to Profit & Loss a/c	21	5	10	-						
			£6	9	-				£6	9	-

Dr.			CARRIAGE A/c			Folio 79			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 29	To Petty Cash a/c	3	1	10	-	Jan. 31	By Transfer to P. & Loss a/c	21	1	10	-

Dr.			WAGES A/c			Folio 80			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Petty Cash a/c	3	16	-	-	Jan. 31	By Transfer to P. & Loss a/c	21	16	-	-

Dr.			REPAIRS A/c			Folio 81			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To T. Sawyer a/c	76	5	-	-	Jan. 31	By Transfer to P. & L. a/c	21	5	-	-

Dr.			DRAWINGS A/c			Folio 82			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Cash a/c	12	20	-	-	Jan. 31	By Transfer to Capital a/c	1	20	-	-

TRIAL BALANCE PREPARED ON 31ST JANUARY, 19..

ACCOUNT	Debit Balance	Credit Balance
	£ s. d.	£ s. d.
J. Watkins Capital a/c		750 - -
Cash a/c	574 - -	
Petty Cash a/c	10 5 -	
Cash Sales a/c		163 10 -
Cash Purchases a/c	75 - -	
Credit Sales a/c		146 - -
Credit Purchases a/c	278 - -	
T. Beach & Sons a/c		20 - -
J. Brown & Co. a/c	108 - -	
T. Sawyer a/c		5 - -
Office Expenses a/c	2 5 -	
Discount a/c		5 10 -
Carriage a/c	1 10 -	
Wages a/c	16 - -	
Repairs a/c	5 - -	
Drawings a/c	20 - -	
	£ 1,090 - -	£ 1,090 - -

Stock on hand on 31st January amounted to £110.

LEDGER (continued)

Dr.	STOCK A/c	Folio 83	Cr.
19.. Jan. 31	To Trading a/c 20	£ 110 - -	£ s. d.

Dr.	TRADING A/c FOR MONTH ENDED JANUARY 31ST, 19..	Folio 20	Cr.
	To Cash 99	£ 163 10 -	£ s. d.
	Purchases a/c 71	75 - -	
	„ Cr. Purch. a/c 71	278 - -	
	„ Gross profit transferred to P. & L. a/c 21	66 10 -	
		£ 419 10 -	
	By Cash Sales a/c 98	163 10 -	
	„ Cr. Sales a/c 100	146 - -	
	„ Stock a/c 83	110 - -	
	(Stock on hand, 31st Jan, 19..)		
		£ 419 10 -	

Dr.	PROFIT & LOSS A/c FOR MONTH ENDED JANUARY 31ST, 19..	Folio 21	Cr.
	To Transfers from: Office Exp. a/c 77	£ 2 5 -	£ s. d.
	Carriage a/c 79	1 10 -	
	Wages a/c 80	16 - -	
	Repairs a/c 81	5 - -	
	„ Net profit transferred to T. Watkins Capital a/c 1	47 5 -	
		£ 72 - -	
	By Gross Profit transf'd from Trading a/c 20	66 10 -	
	„ Transfer from Discount a/c 78	5 10 -	
		£ 72 - -	

BALANCE SHEET OF T. WATKINS BUSINESS AS ON 31ST JANUARY, 19..

LIABILITIES				ASSETS			
	£	s.	d.		£	s.	d.
T. Watkins Capital .	777	5	-	Stock on hand .	110	-	-
<i>Creditors—</i>				<i>Debtors—</i>			
T. Beach & Sons .	20	-	-	J. Brown & Co. .	108	-	-
T. Sawyer .	5	-	-	Cash : £574 - -			
				Petty Cash : 10 5 -			
					584	5	-
	£802	5	-		£802	5	-

EXERCISES

Day Books, Ledger Accounts, Trial Balances, Trading and Profit and Loss Accounts and Balance Sheet should be prepared.

All cash sales takings are paid into the bank on the day of receipt and payments for cash purchases are made by cheque.

No. 1

J. Lupton began business as a timber merchant on the 1st December, 19... He had £650 in the bank and his transactions for December were as follows—

- Dec. 1. Bought timber from P. Jones, £170.
 „ 3. Withdrew £50 from bank for office cash.
 „ 6. Sold timber for cash, £60, being paid by cheque.
 „ 9. Sold timber to W. Johnson, £100.
 „ 11. Bought timber for cash, £120, and paid by cheque.
 „ 13. Paid for office stationery, etc., from office cash, £3.
 „ 16. Bought timber from G. Barlow for £150, less 10% trade discount.
 „ 19. Sold timber to F. Greenwood for £60, less 5% trade discount.
 „ 23. Paid P. Jones by cheque for timber purchased on 1st December, deducting 5% cash discount.
 „ 29. Received cheque from W. Johnson in payment of account, less 2½% cash discount.
 „ 31. Paid wages for month, £40, taken from office cash.
 Stock of timber on hand at end of month valued at £300.

Answer : T.B. totals, £1,010 10s. ; G.P., £92 ; N.P., £55 ; B/S totals, £840.

No. 2

F. Thompson began business as a metal merchant on the 1st January, 19.., with £800 capital, consisting of £750 at the bank and £50 in office cash. During January the following business was transacted—

- Jan. 3. Bought metal from G. Watkins for £100, less 10% trade discount.
 „ 6. Sold metal for cash, £27.
 „ 9. Sold metal to T. Wilkins for £50, less 5% trade discount.
 „ 15. Bought metal for cash, £150, and paid by cheque.
 „ 19. Paid G. Watkins by cheque for metal supplied, deducting 5% cash discount.
 „ 22. Sold metal for cash, £40, being paid by cheque.
 „ 27. Received cheque from T. Wilkins in settlement of his account, less 2½% cash discount.
 „ 30. Bought metal from G. Watkins for £150, less 10% trade discount.
 „ 31. Paid £5 from office cash for repairs to premises.
 „ 31. Paid storeman's wages from office cash, £20.
 Stock of metal on hand at end of month valued at £327.

Answer : T.B. totals, £1,054 ; G.P., £66 10s. ; N.P., £44 16s. 3d. ;
 B/S totals, £979 16s. 3d.

No. 3

W. North commenced business as a leather merchant on the 1st January, 19.., with £500 cash at the bank. His transactions for January were as follows—

- Jan. 1. Withdrew £30 from the bank for office cash.
 „ 2. Bought leather from Newtown Tannery Co., £300, less 5% trade discount.
 „ 5. Sold leather for cash, £40, cheque received.
 „ 7. Sold leather to K. Hargreaves for £100, less 5% trade discount.
 „ 12. Bought leather from R. Brown & Sons, £200, less 5% trade discount.
 „ 17. Bought leather for cash, £50, and paid by cheque.
 „ 21. Sold leather for cash, £60.
 „ 23. Paid Newtown Tannery Co. by cheque for leather purchased, less 2½% cash discount.
 „ 27. Received cheque from K. Hargreaves in settlement of his account. Allowed him to deduct 2½% for cash discount.
 „ 31. Paid from petty cash—
 Employees' wages, £20.
 Lorry hire on goods sold, £3.
 „ 31. Stock of leather on hand at end of month, £395.

Answer : T.B. totals, £892 2s. 6d. ; G.P., £65 ; N.P., £46 15s.
 B/S totals, £736 15s.

No. 4

G. Altham commenced business on the 1st December, 19.., as a wholesale stationer, with a capital of £750 in cash, which he placed in the bank. He did the following business during the month—

- Dec. 3. Bought goods from L. Robertson, £280, less 10% trade discount.
 „ 5. Withdrew £60 from bank for office cash.
 „ 9. Sold goods for cash, £55, paid into bank
 „ 12. Sold goods to P. Heywood, £100 (no trade discount allowed).
 „ 15. Bought goods for cash, £45, and paid by cheque.
 „ 20. Sent cheque to L. Robertson in settlement of account, less 5% cash discount.
 „ 23. Bought goods from New Era Paper Co., £300, less 10% trade discount.
 „ 29. Received cheque from P. Heywood, £95, and allowed him £5 cash discount.
 „ 31. Bought goods from J. Brunskill, £80, less 10% trade discount.
 „ 31. Sold goods for cash, £25; cheque received.
 „ 31. Paid from office cash—Window cleaning, £1; Wages, £29 10s.; Typewriter repairs and hire charge, £2 10s.

Stock of goods on hand at 31st December valued at £500.

Answer: T.B. totals, £1,284 12s.; G.P., £41; N.P., £15 12s.;
 B/S totals, £1,107 12s.

No. 5

On the 1st November, 19.., M. Wilkinson commenced business as a hardware merchant with a capital of £1,500 in the bank. His business transactions for the month of November were as follows—

- Nov. 1. Withdrew £20 from the bank for office cash.
 „ 2. Bought goods from Platers Metal Co., £500, less 5% trade discount.
 „ 3. Sold metal for cash, £40; cheque received.
 „ 9. Sold goods to H. Jones, £100, less 5% trade discount.
 „ 12. Paid £3 from office cash for office stationery.
 „ 16. Bought goods for cash, £55, and paid by cheque.
 „ 18. Bought goods from G. Brown, £150, less 5% trade discount.
 „ 20. Paid rent from office cash, £15.
 „ 22. Sent cheque to Platers Metal Co., in settlement of account, less 2½% discount.
 „ 25. Bought goods from W. Johnson, £100, less 5% trade discount.
 „ 26. Received cheque from H. Jones in settlement of account and allowed 2½% cash discount.
 „ 30. Sold goods for cash, £67, and paid into bank.
 „ 30. Bought goods for cash, £15, paid by cheque.
 „ 30. Paid office salaries by cheque, £35.
 „ 30. Stock on hand valued at £645.

Answer: T.B. totals, £1,951 7s. 6d.; G.P., £64 10s.; N.P., £21;
 B/S totals, £1,758 10s.

No. 6

A. Wright began business as a builders' merchant on the 1st February, 19.., with cash in the bank amounting to £800. His transactions for the month of February were as follows—

- Feb. 1. Paid month's rent by cheque, £27.
 „ 2. Withdrew £25 from bank for office cash.
 „ 4. Bought goods for cash, £70, and paid by cheque.
 „ 9. Sold goods for cash, £60, paid into bank.
 „ 12. Bought goods from W. Smith, £300, less 5% trade discount.
 „ 15. Sold B. Lawson goods, £180, less 10% trade discount.
 „ 18. Bought goods from M. Dougan, £200, less 5% trade discount.
 „ 20. Sent cheque to W. Smith to settle his account, deducting 2½% cash discount.
 „ 23. Bought goods from M. Pearce & Co., £90, less 10% trade discount.
 „ 24. Sold goods for cash, £93; cheque received.
 „ 27. Sold goods to G. May & Sons, £40 (no trade discount).
 „ 28. Received cheque from B. Lawson for £100 for part of goods supplied.
 „ 28. Paid from office cash the following—
 Carriage on goods sold, £4.
 Wages for month, £18.
 „ 28. Stock of goods on hand at this date valued at £303.

Answer : T.B. totals, £1,433 2s. 6d. ; G.P., £32 ; Net loss, £9 17s. 6d. ;
 B/S totals, £1,061 2s. 6d.

CHAPTER V

OPENING Balances in the Ledger—Goods for Sale and Goods for Use—Methods of Adjusting Book Values to Actual Values. (a) Goods for Sale—(b) Goods Bought for Use—Depreciation of Fixed Assets—Primary Records of Fixed Assets—Floating Assets and Fixed Assets—Order of Recording Assets and Liabilities in a Balance Sheet—Personal Accounts, Real Accounts, Nominal Accounts—Goods Returned by Purchasers—Purchases and Sales Returns Day Books—The Use of Business Documents for Book-keeping Purposes—Worked Exercise on Chapter—Exercises.

So far, we have assumed that the owner of a business has had his opening capital always in the form of cash.

At the beginning of the trading period his Balance Sheet was as follows—

BALANCE SHEET (at commencement)

<i>Liabilities</i>	£	<i>Assets</i>	£
Proprietor's Capital (say)	<u>1,000</u>	Cash	<u>1,000</u>

At the end of the period, however, his capital assumed other forms, such as stock of goods, book debts, etc.

In the ordinary course of business some of the stock on hand would not be paid for at the end of the accounting period. This would account for the presence of creditors on the liabilities side of the Balance Sheet.

What the business is worth—or capital value, as it is called—may be found by deducting what the business owes to creditors from the total of the assets. If the amount owed to creditors exceeded the total assets, the proprietor would have insufficient business capital to meet his debts. How he met this deficiency would depend on his private circumstances.

Opening Balances in the Ledger. Let us suppose J. Jones began business with cash £750, stock of leather £500, and he owed T. Wilkins £300 for part of the leather. The opening Balance Sheet would appear as shown on page 76.

BALANCE SHEET (AT 1ST JANUARY, 19..)

<i>Liabilities</i>	£	<i>Assets</i>	£
T. Jones, Capital	950	Stock of leather	500
Creditors—T. Wilkins	300	Cash	750
	<u>£ 1,250</u>		<u>£ 1,250</u>

The business owns the assets of £1,250, but as T. Wilkins has a claim on the business for £300, Jones's claim (his capital) is reduced to £950. These opening *balances* may be recorded in the Ledger as follows—

<i>Dr.</i>		JONES CAPITAL A/c		<i>Cr.</i>	
			19.. Jan. 1	By Balance	£ 950
<i>Dr.</i>		CASH A/c		<i>Cr.</i>	
19.. Jan. 1	To Balance	£ 750			
<i>Dr.</i>		STOCK OF LEATHER A/c		<i>Cr.</i>	
19.. Jan. 1	To Balance	£ 500			
<i>Dr.</i>		T. WILKINS A/c		<i>Cr.</i>	
			19.. Jan. 1	By Balance	£ 300

Goods for Sale and Goods for Use. Goods are of two main classes, according to the *purpose* for which they are *bought*. Then again, some trading concerns sell goods while others sell services. For example, retail stores may sell food products, etc., while garages sell "repairs," cinemas and theatres sell entertainment, and so on. For book-keeping purposes sales of services are in the same category as sales of goods and are dealt with through the Sales Day Book. The two classes of purchases are—

(a) *Goods bought for sale.* As we know, purchases of goods for sale, which will include raw materials for manufacture as

well as ready-made goods, are recorded in the Purchases Day Book and consequently, when sold, are passed through the Sales Day Book. Traders deal in goods without altering the form in which they are bought—except to sell them in smaller quantities—while manufacturers make the goods they sell. Their purchases are, therefore, in the form of raw materials of different kinds and they have to buy *other forms* of goods and services in order to turn the raw materials into saleable goods.

For example, they need machinery, etc., and labour service, and services like heating, lighting, water supply, etc.

The cost of *making* the goods and *finding markets for them* will thus include the cost of raw materials, the *use* of machinery, the wages of labour, etc., as well as all other incidental costs incurred in getting the goods sold. Such a cost is known as the manufacturer's *sales cost*. To this he would add his profit in order to arrive at the *sale price*.

(b) *Goods bought for use in the business*. These may be divided into two main classes—

- (i) Those which give *long* use, like office furniture, machinery, lorries, buildings, etc., and are known as *fixed assets*.
- (ii) Those which cannot be used over and over again like those under (i). Examples of these are office stationery, packing materials, coal, water, etc. In addition to including goods, this class may also include *services* like labour of all kinds, lighting, heating, cleaning, etc.

Those under (i) must be kept in good condition in order to give satisfactory service, and so expenditure on additional services has to be incurred on them for this purpose. These include services like repairs, cleaning, replacements, which have already been mentioned under (ii).

The expenses which maintenance, repairs, and similar services incur are therefore known as *service* expenses.

Even with proper attention, fixed assets like machinery, lorries, etc., lose their value in course of time on account of wear and tear and obsolescence. Such loss of value is known as *depreciation*, and the amount of this loss, year by year, will depend largely on the type of fixed asset and the length of time it is used. On account of depreciation, it is customary to adjust the *book* values of fixed assets year by year, so that the book values may correctly represent the *estimated*

value of the assets. This enables the annual Balance Sheets to present a reliable picture of the values of the fixed assets. When we speak of the value of a fixed asset, we refer to its worth in a particular business, on the assumption that it will continue to be used for productive or business purposes. It is quite probable that its sales or disposal value may differ from its balance sheet value. As fixed assets are not held for sale, it would be incorrect to value them as though they were goods held for sale.

Methods of Adjusting Book Values to Actual Values.

(a) **Goods for Sale.** As we have seen, any loss of value of stock on hand, as brought to light at stock-taking times, is charged against profits by means of crediting the Trading a/c with the *real* value of the stock in hand, and making a corresponding debit entry in the Stock a/c. This debit entry takes the place of the stock which was recorded in the Stock a/c as the result of the previous year's stock-taking.

The following example shows how the opening stock is dealt with—

1st Year—

31 Dec. Stock on hand valued and recorded at £1,000

2nd Year—

12 months Purchases amounted to . . . 1,600
and Sales " " . . . 2,300

31 Dec. Book value of stock on hand (according
to stock sheets) was . . . 1,300
but the stocktaking revealed a loss of . 150
(i.e. real value was £1,150).

If it were desired to record the loss of £150 as a separate item in the Trading a/c it could be done as follows—

Dr.		STOCK A/c		Cr.	
2nd Year		£	2nd Year	£	
Jan. 1	To Balance .	1,000	Dec. 31	By Transfer to Trading a/c .	1,000
Dec. 31	To Trading a/c .	1,300	Dec. 31	By Trading a/c (loss in value of stock) .	150
			Dec. 31	„ Balance c/d .	1,150
3rd Year		£ 1,300			£ 1,300
Jan. 1	To Balance b/d	1,150			

TRADING A/c FOR YEAR ENDED 31ST DECEMBER, 19..
(2ND YEAR)

Dr.		£			Cr.
	To Stock a/c			By Sales a/c	£ 2,300
	(opening stock)	1,000		„ Stock a/c	
	„ Purchases a/c	1,600		(book value of	
	„ Stock a/c (loss			closing stock	
	in value)	150		before adjust-	
	„ Gross profit			ment	1,300
	transferred to				
	P. & L. a/c	850			
		<u>£ 3,600</u>			<u>£ 3,600</u>

As explained in the first chapter, it is customary to deal with differences between book values and real values of stocks by first of all deducting losses from stock sheet values and then using the new values for calculating the trading profit, as shown below—

Dr.		£		Cr.
2nd Year			2nd Year	
Jan. 1	To Trading a/c	<u>1,000</u>	Dec. 31	By Transfer to
3rd Year				Trading a/c
Jan. 1	To Trading a/c	1,150		<u>1,000</u>

TRADING A/c FOR YEAR ENDED 31ST DECEMBER, 19..
(2nd Year)

Dr.		£		Cr.
	To Stock a/c (stock			By Sales a/c
	at 1st Jan. 2nd			2,300
	year)	1,000		„ Stock a/c
	„ Purchases a/c	1,600		(valuation at
	„ Gross profit			31st Dec. 2nd
	transferred to			year)
	P. & L. a/c	850		1,150
		<u>£ 3,450</u>		<u>£ 3,450</u>

The stock on hand at the *beginning* of the year is transferred to the *debit* side of the Trading a/c because, although bought in a previous period, it forms part of the total stock available for sale.

The Trading a/c is sometimes set out by showing sales only on the credit side. The stock on hand at the end of the period

is placed on the debit side as a *deduction*. This enables all the items on the debit side to be compared, on a percentage basis if desired, with the sales.

TRADING A/C FOR YEAR ENDED 31ST DECEMBER, 19..

Dr.	(2ND YEAR)				Cr.
To Opening Stock	£	1,000		By Sales	£
Add Purchases		1,600			2,300
		2,600			
Less Closing Stock		1,150			
			1,450		
„ Gross profit to P. and L. a/c			850		
	£	2,300			£ 2,300

(b) **Goods Bought for Use.** It is important to remember that purchases and sales of goods *obtained for use* must *not* be included in the Purchases and Sales Day Books *along with* goods intended for sale. In the following chapter, we shall show how *purchases* of goods for use, and also services, can both be classified into groups and recorded in the Ledger by first of all passing them through a Purchases Day Book which has special additional columns for the purpose. In the meantime, however, such goods may be entered directly into the Ledger, as shown below.

Jan. 7. J. Brown bought a lorry from the Kent Garage Co.
for £150.

Recorded in J. Brown's books—

Dr.	KENT GARAGE CO. A/c				Cr.
			19.. Jan. 7	By Lorries a/c	£ 150

Dr.	LORRIES A/c				Cr.
19.. Jan. 7	To Kent Garage Co. a/c	£ 150			

As assets like buildings, machinery, lorries, etc., have lasting use, their accounts will remain open so long as the assets have any book value. When they are eventually disposed of, the sale transactions will *not* be passed through the Sales Day Book. The accounts concerned will be credited with the sale prices, and any loss or gain on sale will be recorded, in order to close the accounts. Any such loss or gain will eventually be transferred to the Profit & Loss a/c.

Nov. 10. The above lorry was sold for cash, £120.

Dr.		LORRIES A/c		Cr.	
19..		£		19..	£
Jan. 7	To Kent Garage Co. a/c	150		Nov. 10	By Cash a/c
				„ 10	„ Loss on sale of Lorry a/c
					30
		<u>£150</u>			<u>£150</u>

Dr.		CASH A/c		Cr.	
19..		£			
Nov. 10	To Lorries a/c	120			

Dr.		LOSS ON SALE OF LORRY A/c		Cr.	
19..		£			
Nov. 10	To Lorries a/c (loss on sale)	30			

Depreciation of Fixed Assets. Every fixed asset or class of fixed assets will have a register, in addition to a Ledger a/c, on which particulars of its working life (e.g. efficiency, repairs, depreciation, etc.) can be recorded. As depreciation is mainly due to wear and tear arising from trading or manufacturing operations, etc., it is classed as a business expense and charged (i.e. debited) to the Profit & Loss a/c like other business expenses and losses. Depreciation thus reduces the net profit available for the proprietor's use.

It should be noted that cash is not taken out of a business by the act of charging depreciation against profits. All that happens is that the value of the fixed assets concerned are reduced at the cost of losing some of the profits. If an asset is

depreciated over a number of years, it is desirable and financially prudent that the amount of depreciation should be represented by assets of one kind or another. It is preferable that these assets should be in the form of cash or investments. Such assets should not be withdrawn from the business as if they formed part of the amount represented by net profits. If the assets are retained in the business during the years of depreciation, the business should have accumulated funds in the form of cash or investments, etc., at least equal to the total amount of depreciation so as to enable the proprietor to purchase a new asset when the old one is disposed of. This enables the business capital to be maintained without loss.

The amount of depreciation of a fixed asset can only be in the nature of an estimate. There are no arbitrary rules for calculating the depreciation of assets generally, as amounts will depend not only on the type of asset, but also on working conditions and other factors in the business concerned. Except for assets like loose tools, etc., it would not be possible to "price" assets like machinery, plant, and equipment each year, as is done for saleable goods. Prices of the latter must be adjusted in accordance with market prices of similar goods, or to supply and demand, whereas the book values of fixed assets could not be adjusted on such a basis. It usually requires technical knowledge to be able to estimate how long fixed assets like machinery, etc., are likely to last, and their liability to obsolescence. When such facts are known, the amount of annual depreciation may be calculated by taking into consideration the *cost* of the fixed asset, *how long* it is likely to last, and how much it is likely to fetch when it is withdrawn from service; and the cost of the fixed asset can then be written off by means of annual depreciation over the number of years it is expected to function.

Suppose, for example, a machine cost £1,000, and it was estimated to last 15 years and to be worth about £100 at the end of that time. The amount of depreciation to be charged to the P. & L. a/cs during the 15 years would be £900.

This could be charged to the P. & L. a/cs by two simple methods—

- (a) An equal amount each year, i.e. £60 per annum.
- (b) A percentage of the residual annual balance each year, so that after 15 years there would be approximately £100 left

in the Machinery a/c. This would entail a 14 per cent charge each year so that £140 would be debited to the P. & L. a/c in the first year, £120 in the second year, and so on. The required percentage would first of all have to be calculated by arithmetical process. This method (b) results in larger amounts being charged during the first years of the life of the asset, and so it is sometimes used for assets that have a long life of service.

Finally, it should be noted that depreciation should be calculated on the Ledger balance at the beginning of a year, plus a proportionate charge for additions made during a year.

This arrangement ensures that the financial accounts and the costing department make proper provision for depreciation, having regard to the length of time the business has utilized the services of the assets for which the depreciation is charged.

Example—

Jan. 1. Jones bought a machine from the Kent Machinery Co., for £200.

July 1. He bought another machine for cash, £100.

It was decided to depreciate the machinery at the rate of 10 per cent a year on the original cost.

Dr.		KENT MACHINERY CO. A/c			Cr.	
			19.. Jan. 1	By Machinery a/c .		£ 200
Dr.		CASH A/c			Cr.	
			19.. July 1	By Machinery a/c .		£ 100
Dr.		MACHINERY A/c			Cr.	
1st Year		£	1st Year		£	
Jan. 1	To Kent Machinery Co. a/c .	200	Dec. 31	By Depreciation a/c (Machine No. 1) .	20	
July 1	„ Cash a/c (Machine No. 2)	100	„ 31	„ Depreciation a/c (Machine No. 2) .	5	
			„ 31	„ Balance c/d .	275	
		<u>£300</u>				<u>£300</u>
2nd Year						
Jan. 1	To Balance b/d .	275		Note.—The amt. of depreciation for year 2 would be £30 (i.e. 10% of £200 and ditto of £100)		

Dr.		DEPRECIATION A/c				Cr.
1st Year Dec. 31	To Machinery a/c . . .	£ 25	1st Year Dec. 31	By Transfer to P. & L. a/c .	£ 25	

Dr. PROFIT & LOSS A/c FOR PERIOD ENDED 31ST DECEMBER, 19.. (1ST YEAR)						Cr.
	To Depreciation a/c (machinery) .	£ 25				

Primary Records of Fixed Assets. Fixed assets are classified according to their function and shown in *total* form in the Ledger. For example, fixed productive machinery and fixed machinery for the supply and generation of motive power and heating—but excluding loose tools and works buildings—are generally classified as “plant” or “plant and machinery.”

Just as it is advisable to have stock record cards for keeping a proper check on stocks of saleable goods, so also it is helpful to have plant and machinery record cards for *each unit* of plant and machinery so as to enable a proper check to be kept on all the constituent items. Such cards make up what is sometimes called a plant and machinery register. They do *not* form part of the double-entry system, but are only primary records for maintaining a detailed record of the various items of this class of fixed assets.

A plant record card for a single machine or unit of similar machines may be used for recording the details of its cost, location, and identification in the works, rate of depreciation per annum, and the amount actually charged, cost of repairs, and the current book value of the machine, etc. It is helpful to include the cost of repairs on a card of this kind so as to be able to compare the running costs of the various types of machines. It is only by having cards for individual units of machinery, etc., that such information can be properly recorded, as such details could not conveniently be included in a single Plant and Machinery a/c in the Ledger.

The book value of a *machine* at the end of any financial year may be found by deducting the annual amount of depreciation from the book value of the machine at the beginning of that year.

Similar record cards for plant and machinery may be kept by the costing department for recording the monthly amounts

of depreciation charged to production costs ; but such cards do not form part of the financial records or books of account.

A specimen plant and machinery record card is given below.

PLANT RECORD CARD										Card Ref. No.	
<i>Description of Machine</i>											
<i>Works Number and Classification</i>						<i>Location in works</i>					
<i>Suppliers</i>						<i>Date of purchase, (Year 1) 1st Jan.</i>					
<i>Cost, £250</i>				<i>Depreciation (rate p.a.) 10% (straight line basis)</i>							
Particulars of machine and of subsequent add- itions (if any)		Cost			Date of purchase	Year	Annual Depreciation			Current Value	
Particulars . . .	£	s.	d.	(Year 1) Jan. 1	(Yr. 1)	£	s.	d.	£	s.	d.
	250	—	—	(Year 3) July 1	(Yr. 2)	25	—	—	225	—	—
Particulars of add'n	50	—	—		(Yr. 3)	27	10	—	222	10	—
					(Yr. 4) etc.	30	—	—	192	10	—

Floating Assets and Fixed Assets. Floating or current assets are those with which the business *trades*, such as cash, goods, book debts (trade debtors). Such assets are constantly changing their form as the cycle of trade is repeated. Cash is turned into goods ; when these are sold and cash is received, the cycle is completed. Cash is held up temporarily in respect of goods sold on credit so that “ book debts ” are part of the trading cycle. Floating assets therefore constitute the *working capital* of a business.

In regard to a *new* business, the working capital would be the amount remaining for working the business after the purchase of the fixed assets. For example, if A. Brown began business with a capital of £5,000 and he spent £1,000 on premises, £1,500 on machinery and £500 on a lorry, he would have £2,000 left as his working capital. With an *existing* business, however, the working capital would be found by deducting the floating liabilities from the floating assets, as shown by the following Balance Sheet.

The floating assets (stock, debtors, and cash) = £2,850, and the floating liabilities = £850, so that the working capital = £2,000.

A. BROWN'S BALANCE SHEET (31ST DECEMBER, 19..)

<i>Liabilities</i>	£	<i>Assets</i>	£
Capital	5,000	Premises	1,000
Creditors	850	Machinery	1,500
		Lorry	500
		Stock	1,300
		Debtors	600
		Cash	950
	<u>£5,850</u>		<u>£5,850</u>

Fixed assets, on the other hand, are those of a lasting nature which a business *uses* for manufacturing and trading purposes ; as for example, business premises, power plant and factory machinery, tools and equipment, furniture, lorries, etc. These have already been referred to in this chapter.

Just as there are floating and fixed assets, so there are floating and fixed liabilities. For example, trade creditors constitute a temporary or floating liability owed by a business, while its capital will normally be a more permanent liability.

Bearing in mind the above, a Balance Sheet may be set out in a more informative manner by arranging assets and liabilities under two heads—current and fixed. Floating assets may be listed according to their degree of currency, and fixed assets according to their relative permanence so far as the particular business is concerned. The following simple form of Balance Sheet illustrates this.

BALANCE SHEET of.....at.....

LIABILITIES			ASSETS	
	£	£		£
<i>Fixed Liabilities—</i>			<i>Fixed Assets—</i>	
Capital (at beginning of trading period)	12,000		Buildings	6,000
Add Profit (or deduct loss)	1,000		Plant and Machinery	2,500
		13,000	Fixtures and Fittings	500
<i>Current Liabilities—</i>			<i>Current Assets—</i>	
Sundry Creditors		10,000	Stock on hand	8,000
			Sundry Debtors	4,000
			Cash at bank	1,950
			Cash in hand	50
		<u>£23,000</u>		<u>£ 23,000</u>

Order of Recording Assets and Liabilities in a Balance Sheet.

A Balance Sheet consists of classified lists of debit and credit balances that remain in the Ledger after the Trading and P. & L. a/cs have been prepared, i.e. *after* having made any necessary final adjustments for prepaid and outstanding items, and provided for losses like depreciation and wear and tear of fixed assets.

A Balance Sheet should show the financial position of a business at the date of closing the accounts. The remaining *debit* balances at that time are listed and placed on the right hand, or assets, side, while the *credit* balances are placed on the left-hand or liabilities side. There is no reason why items listed as assets or liabilities should not be recorded on the side opposite to which they are customarily placed, or even in list form, as a Balance Sheet is *not* an account but a classified list of balances. As, however, it is the practice for assets to be placed on the right-hand side and liabilities on the left-hand side, students should follow the orthodox method.

Except for Limited Companies (see Part II, Ch. IV), where the Companies Acts require certain details to be disclosed on the face of Balance Sheets, there are no legal directions as to the *lay-out* of a business Balance Sheet. In order that the financial position of a business may be clearly set out, it is desirable for Balance Sheet items to be classified in a logical way.

- (i) In the case of trading and manufacturing concerns, it is customary to arrange *assets* according to their varying degrees of fixity, which may be roughly measured by the relative difficulty of converting them into cash if they had to be disposed of. In such cases, the first item would consist of intangible assets like goodwill, patent rights, etc., followed by fixed assets, floating assets, with cash balances coming last of all. The corresponding order for *liabilities* would show the proprietor's capital as the first item, followed by any general reserves, reserves for outstanding expenses, creditors, loans, and bills payable.
- (ii) In the case of concerns whose financial stability is largely determined by their cash and other current assets, it is

usual for Balance Sheet items to be arranged in the *reverse* order. In such instances, the first item on the *assets* side would consist of cash balances, followed by investments, bills receivable, debtors, stock, fixed assets like equipment and buildings, and, finally, any intangible assets. Similarly, items on the *liabilities* side would be listed so that the *first one* represented the liability which would have to be settled first of all, and so on. This alternative method is generally adopted by concerns like banks, etc. Except for the legal requirements laid down for limited companies, it is permissible to adopt either of the methods mentioned above, provided assets and liabilities are listed in a logical order.

Personal a/cs, Real a/cs, Nominal a/cs. Just as assets and liabilities may be classified according to their nature, so also, it is possible to classify *accounts* according to their character.

- (i) Accounts which relate to *persons* (debtors and creditors) are known as *personal a/cs*. Where the volume of credit trading permits, separate Ledgers are used for trade debtors and trade creditors. These are known as the Sales Ledger (for debtors) and the Bought Ledger (for creditors).
- (ii) Accounts for real or tangible assets, like machinery, lorries, furniture, cash, stock, etc., are known as *real accounts*. The titles of such accounts indicate the nature of the assets.
- (iii) There are also many accounts which are of a *non-personal* kind, and titles have to be provided for them. This is why they are known as *impersonal* or *nominal* accounts. Examples are—Cleaning a/c, Wages a/c, Carriage a/c, Purchases a/c, General Expenses a/c, etc. .

Goods Returned by Purchasers. Purchasers occasionally return goods to sellers on account of their faulty condition or because they are not the kind ordered, or in excess of the quantity ordered, etc.

Returned goods will be either—

- (a) those which a business man, say Jones, receives from his customers (these are his “*sales returns*”) or

- (b) goods which Jones returns to his suppliers (these are his "*purchases returns*").

Purchases and Sales Returns Day Books. As returns of goods inwards and outwards may be classified under these heads, they can be recorded collectively and dealt with by means of *separate Day Books* in the same way as purchases and sales.

There will thus be a *Sales Returns Book* or *Returns Inwards Book* as it is sometimes called, with a corresponding Sales Returns a/c in the Ledger ; and a *Purchases Returns Book* (or *Returns Outwards Book*) with its Purchases Returns a/c in the Ledger. These accounts will be debited or credited, respectively, with monthly totals from the Day Books, and the individual personal accounts will receive corresponding contra entries so as to complete the double-entry. For this reason, no alterations are made to the *original* Ledger entries relating to the purchase or sale of such goods.

Allowances. It sometimes happens that it is unprofitable to the seller to have unwanted goods returned to him, on account of their perishable nature, the high cost of carriage, etc. Even though the goods may be faulty or inferior, or not the kind ordered, the purchaser may nevertheless be able to sell them ; so that the most satisfactory method of settling the matter may be for the seller to make an allowance off the invoice price in lieu of having the goods returned to him. This is known as an *allowance*.

When a buyer has received goods in excess of those stated on the invoice, the transaction to adjust the difference is recorded on an additional invoice (called a *debit note*), which the seller sends to the buyer. If, on the other hand, the buyer is allowed something for short quantity or inferior quality, the seller will send him a *credit note* to show that the buyer's account will be credited with the amount of the allowance. This will have the effect of reducing the debt as shown on the original invoice.

If there is an error in the invoice, e.g. wrong prices given, miscalculation, omission, etc., it can be adjusted by means of a debit note when there has been an under-charge, or a credit note when there has been an over-charge. Such errors are dealt with in the usual way through the medium of the appropriate Day Books, and a suitable explanatory narration is given in each case.

Example—

- 1 Jan. T. Jones, leather merchant, sold leather to W. Watkins for £200, less 10 per cent trade discount.
- 5 Jan. W. Watkins returned part of the leather received on 1st January as not being of the quality ordered. Jones sent him a credit note for £17 to adjust this.
- 7 Jan. Jones sold leather to T. Jackson for £100, less 10 per cent trade discount.
- 9 Jan. Jackson complained that part of leather was received in damaged condition. Jones agreed to make him an allowance of £10 and sent a credit note for this.
- 15 Jan. Jones informed Jackson that part of leather sent on 7th January was undercharged for to the extent of £4 (net) and he sent Jackson a debit note to cover this.

Records in Jones' Books.

SALES DAY BOOK

Date	Name	Particulars	Ledger Folio	£	s.	d.
19..						
Jan. 1	W. Watkins . . .	Leather	L.	180	-	-
" 7	T. Jackson . . .	" " " " " " "	L.	90	-	-
" 15	T. Jackson . . .	Undercharge on leather (Invoice No...)	L.	4	-	-
" 31	Total sales for month, posted to Sales a/c . . .			£ 274	-	-

SALES RETURNS BOOK

Date	Name	Particulars	Ledger Folio	£	s.	d.
19..						
Jan. 5	W. Watkins . . .	Leather returned . . .	L.	17	-	-
" 9	T. Jackson . . .	Allowance on leather . . .	L.	10	-	-
" 31	Total of returns and allowances, posted to Sales Ret. a/c		L.	£ 27	-	-

LEDGER A/cs

Dr.				CREDIT SALES A/c				Cr.			
				19..	By Total of sales	S.D.		£	s.	d.	
				Jan. 31	for Jan., posted	Bk.		274	-	-	
					from Sales D. Bk.						

Dr.		SALES RETURNS A/c										Cr.	
19..			£	s.	d.								
Jan. 31	To Total of sales returns for Jan from S.R. Bk.	S.R. Bk.	27	-	-								

Dr.		W. WATKINS A/c										Cr.	
19..			£	s.	d.	19..			£	s.	d.		
Jan. 1	To Goods	S.D. Bk.	180	-	-	Jan. 5	By Returns	S.R. Bk.	17	-	-		

Dr.			T. JACKSON A/c									Cr.		
19..			£	s.	d.	19..			£	s.	d.			
Jan. 7	To Goods	S.D. Bk.	90	-	-	Jan. 9	By Allowance	S.R. Bk.	10	-	-			
„ 15	„ Underage.	S.D. Bk.	4	-	-									

The first two accounts, together with the Purchases a/c, will be transferred to the Trading a/c at the end of the trading period. The net amount of sales will be the gross sales (as shown by the Sales a/c) *less* the sales returns, and similarly for the net amount of purchases. Hence it is usual, when setting out the *Trading a/c*, to enter the sales returns on the credit side of that account as a deduction from the sales and the purchases returns on the debit side, as a deduction from purchases. The following Trading a/c illustrates this—

TRADING A/c OF T. JONES FOR THE PERIOD ENDED 31ST DECEMBER, 19..

	£	£		£	£
To Stock on hand (Jan. 1)		3,000	By Sales	10,000	
" Purchases	6,000		Less Sales returns	200	
Less Purchases returns	250				9,800
		5,750	" Stock on hand		2,000
" Gross profit transferred to P. & L. a/c		3,050	(Dec. 31st)		
		<u>£11,800</u>			<u>£11,800</u>

The Use of Business Documents for Book-keeping Purposes.
Let us suppose that T. Williams & Son order goods from Messrs. Timson & Sons, Ltd., on the order form shown on p. 92.

ORDER FORM

Order No. 273.

September 7th, 19..

From T. WILLIAMS & SON,
18, JOHN STREET, LUTON.

To MESSRS. TIMSON & SONS, LTD.,
14, KNIGHT STREET, LEICESTER.

Please supply the undermentioned goods—

Quantity	Catalogue Number, etc.	Description	Price
30 pairs . .	Cat. L/41 .	Ladies' slippers .	12s. pair
60 pairs . .	„ M/37 .	Men's box calf shoes	15s. „
50 pairs . .	„ M/53 .	Patent slippers .	10s. „
T. Williams.			

MESSRS. TIMSON & SONS, LTD.

Your Order No.: 273

14, KNIGHT STREET,
LEICESTER.

Our Invoice No.: 427

11th September, 19..

Sold to MESSRS. T. WILLIAMS & SON,
18, JOHN STREET, LUTON.

Settlement Terms: Usual.

Quantity	Catalogue Number, etc.	Description	Price	Amount		
30 pairs . .	Cat. L/41 .	Ladies' slippers .	12s. pair	£	s.	d.
60 „ . .	„ M/37 .	Men's box calf shoes	15s. „ .	18	—	—
50 „ . .	„ M/53	Patent slippers .	10s. „ .	45	—	—
				25	—	—
				88	—	—
Less 20% trade discount				17	12	—
				£70	8	—

The above goods are subject to 20 per cent trade discount. On receipt of the order, Messrs. Timson & Sons forward the goods and also an *invoice*, setting out the cost of the various items. Timson's may also send a dispatch note (or advice note) to advise Williams that the goods are being sent and of the number of packages, etc., to be received.

A specimen invoice for the order is given on p. 92.

From a duplicate copy of the invoice, Timson & Sons will enter particulars of this sale in their Sales Day Book, as under—

SALES DAY BOOK					Folio 84		
Date	Refer'ce	Name & Town	Particulars	Ledger Folio	£	s.	d.
19.. Sept. 11	Inv. 427	T. Williams & Son Luton	Shoes (sundry lines)	L.49	70	8	-

The Ledger a/c of Williams & Son would be debited with £70 8s. od., and this amount, along with other sales for September, would be posted to the credit side of the Credit Sales a/c.

Let us now suppose that an error was made in the price of item L/41. This should have been 10s. per pair instead of 12s. per pair, and that Timson & Sons sent Williams & Son a *credit note* on 14th September for £2 8s. od. to adjust the difference. This transaction would be entered in Timson's *Sales Returns Book* as follows—

SALES RETURNS BOOK					Folio 28		
Date	Refer'ce	Name & Town	Particulars	Ledger Folio	£	s.	d.
19.. Sept. 14	Inv. 427	T. Williams & Son Luton	Overcharge on item L/41	L.49	2	8	-

The above item would be posted to the credit of T. Williams a/c, and, at the end of September, would form part of the monthly total of Sales returns and allowances, etc., for posting to the debit of the Sales Returns a/c.

At the end of September, Timson & Sons would send a *Statement of Account* to Williams, showing the latter's

indebtedness. Let us suppose that the account is subject to $2\frac{1}{2}$ per cent cash discount and that it is settled on 12th October.

STATEMENT OF ACCOUNT								
14, KNIGHT STREET, LEICESTER.								
30th September, 19..								
MESSRS. T. WILLIAMS & SON, 18, JOHN STREET, LUTON.								
<i>Dr. to</i> MESSRS. TIMSON & SONS, LTD.								
Date	Particulars	£	s.	d.	£	s.	d.	
Sept. 11	To Goods	70	8	-				
	By Overcharge	2	8	-				
					68	-	-	

The account of T. Williams & Son, shown below, incorporates the transactions recorded in the Day Books, and also the cash settlement.

In the Ledger of Messrs. Timson & Sons, Ltd.

Dr.		T. WILLIAMS & SON A/c					Folio 49 Cr.				
Date	Particulars	Day Book	£	s.	d.	Date	Particulars	Day Book	£	s.	d.
19.. Sep. 11	To Goods	S.D.B. 84	70	8	-	19.. Sep. 14	By Overche'ge	S.R.B. 28	2	8	-
						Oct. 12	„ Cash a/c	C.B.	66	6	-
						Oct. 12	„ Discount	„	1	14	-
			£ 70	8	-				£ 70	8	-

Worked Exercise on Chapter. On 1st January, the financial position of the business of T. Atkins was as follows—

Assets : Cash at bank, £800 ; stock of leather, £550 ; lorries, valued at £540 ; T. Francis (debtor), £250.

Liabilities : H. Jacobs, £150.

During January the following business was transacted—

- Jan. 1. Drew £50 from bank for petty cash purposes.
 „ 3. Sold leather to H. Wilkins for £180, less 10% trade discount.
 „ 5. Bought leather and paid for it out of petty cash, £15.
 „ 7. Bought leather from H. Jacobs for £240.
 „ 7. Made an allowance of £3 10s. to H. Wilkins for overcharge on invoice dated 3rd January.
 „ 8. Paid carriage from petty cash on leather sold on January 3rd, £1.
 „ 10. Bought lorry from A.B.C. Garage Co. for £250.
 „ 14. Sold leather for cash, £35.
 „ 19. Sold leather to T. Francis, £340.
 „ 22. Sent T. Francis debit note for £5 in respect of undercharge for leather sold on 19th January.
 „ 24. Received cheque from H. Wilkins for the leather bought on 3rd January, less 2% cash discount.
 „ 25. H. Jacobs made an allowance of £15 on leather bought on 7th January, for inferior quality.
 „ 27. Settled H. Jacobs' account by cheque, less 2% cash discount.
 „ 27. Sold a lorry for £170. This lorry appeared in the books at a value of £200.
 „ 31. Received an invoice for carriage from the Southern Railway, respecting leather sold on 19th January, £1 17s. 6d.
 „ 31. It was decided to depreciate the book value of the lorries as on 1st January, by 10% per annum (P.S.—Charge one month's depreciation).
 „ 31. Stock of leather unsold on this date valued at £270.

SALES DAY BOOK

Date	Invoice No.	Name	Particulars	Led. Fo.	£	s.	d.
19..							
Jan. 3	No. 274	H. Wilkins . . .	Leather		162	-	-
„ 19	„ 275	T. Francis . . .	Leather		340	-	-
„ 22	„ 114	T. Francis . . .	Undercharge on S. inv. No. 275		5	-	-
„ 31	Total of Cr. Sales for January, posted to Cr. Sales a/c				<u>£507</u>	-	-

PURCHASES DAY BOOK

Date	Invoice No.	Name	Particulars	Led. Fol.	£	s.	d.
19..							
Jan. 7	No. 48	H. Jacobs . . .	Leather		240	-	-
„ 31	Total of Cr. purchases for Jan., posted to Cr. Purchases a/c				<u>£240</u>	-	-

SALES RETURNS BOOK

Date	Note No. etc.	Name	Particulars	Led. Fol.	£	s.	d.
19.. Jan. 7	No. 30	H. Wilkins .	Overcharge on S. inv. No. 274		3	10	—
„ 31		Total of Sales Returns, etc., for Jan., posted to Sales Ret. a/c			£3	10	—

PURCHASES RETURNS BOOK

Date	Note No. etc.	Name	Particulars	Led. Fol.	£	s.	d.
19..							
Jan. 25	No. 115	H. Jacobs . . .	Allowance on P. inv. No. 48.		15	-	-
„ 31		Total of Pur. Returns, et c., for Jan., posted to Pur. Ret.	a/c		<u>£15</u>	<u>-</u>	<u>-</u>

LEDGER A/cs

Dr.		T. ATKINS CAPITAL A/c					Cr.		
19.. Jan. 31	To Net loss transferred from P. & L. a/c	£	s.	d.	19.. Jan. 1	By Balance	£ 1,990	s. -	d. -
„ 31	„ Bal'ce c/d	14 1,975	10 9	11 1					
		£ 1,990	-	-			£ 1,990	-	-
					Feb. 1	By Balance b/d	1,975	9	11

<i>Dr.</i>	CASH A/c	<i>Cr.</i>
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		Dis.			Cash					Dis.			Cash		
		£ s. d.			£ s. d.					£ s. d.			£ s. d.		
19..								19..							
Jan. 1	To Balance				800	-	-	Jan. 1	By Petty C. a/c				50	-	-
" 14	" Cash S. a/c				35	-	-	" 27	" H. Jacob a/c	7	10	-	367	10	-
" 24	" H. Wilkins														
	a/c	3	3	5	155	6	7								
" 27	" Lorries a/c				170	-	-	" 31	Total of dis. for						
" 31	Total of dis. for								Jan., posted to						
	Dis. a/c (Dr.)	3	3	5					Dis. a/c (Cr.)	7	10	-			
								" 31	By Balance c/d.				742	16	7
					£ 1,160	6	7					£ 1,160	6	7	
Feb. 1	To Balance b/d				742	16	7								

<i>Dr.</i>	STOCK OF LEATHER A/c	<i>Cr.</i>
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19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance	550	-	-	Jan. 31	By Transfer to Trading a/c	550	-	-
Jan. 31	To Trading a/c	<u>270</u>	-	-					

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Dr.		LORRIES A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance		540	-	-	Jan. 27	By Cash a/c		170	-	-
" 10	" A.B.C. Garage Co. a/c		250	-	-	" 27	" Loss on Lorries a/c		30	-	-
						" 31	" Depreciation a/c		4	10	-
						" 31	" Balance c/d		585	10	-
			<u>£790</u>	-	-				<u>£790</u>	-	-
Feb. 1	To Balance b/d		585	10	-						

Dr.			T. FRANCIS A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance		250	-	-	Jan. 31	By Balance c/d		595	-	-
" 19	" Goods	S.D.B.	340	-	-						
" 22	" Undercharge	S.D.B.	5	-	-						
			<u>£595</u>	-	-				<u>£595</u>	-	-
Feb. 1	To Balance b/d		595	-	-						

Dr.						H. JACOBS A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.			
Jan. 25	To Allowance .	P.R.B.	15	-	-	Jan. 1	By Balance .	.	150	-	-			
" 27	" Cash a/c .		367	10	-	" 7	" Goods .	.	240	-	-			
" 27	" Discount .		7	10	-									
			£390	-	-				£390	-	-			
			<u> </u>	<u> </u>	<u> </u>				<u> </u>	<u> </u>	<u> </u>			

Dr.		PETTY CASH A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To Cash a/c		50	-	-	Jan. 5	By Cash Pur. a/c	15	-	-
						" 8	" Carriage on Sales a/c	1	-	-
						" 31	" Balance c/d	34	-	-
			<u>£50</u>	<u>-</u>	<u>-</u>			<u>£50</u>	<u>-</u>	<u>-</u>
Feb. 1	To Balance b/d		34	-	-					

Dr.			H. WILKINS A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 3	To Goods .	S.D.B.	162	-	-	Jan. 7	By Allowance .	S.R.B.	3	10	-
						" 24	" Cash a/c .	C.B.	155	6	7
						" 24	" Discount .	C.B.	3	3	5
			£ 162	-	-				£ 162	-	-

Dr.			CREDIT SALES A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c		507	-	-	Jan. 31	By Total of Cr. sales posted from S.D.B.	S.D.B.	507	-	-
			<u>507</u>	<u>-</u>	<u>-</u>				<u>507</u>	<u>-</u>	<u>-</u>

Dr.			CASH SALES A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c		35	-	-	Jan. 14	By Cash a/c		35	-	-
			<u>35</u>	<u>-</u>	<u>-</u>				<u>35</u>	<u>-</u>	<u>-</u>

Dr.		CREDIT PURCHASES A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 31	To Total of Cr. purch. posted from P.D.B.	P.D.B.	240	-	-	Jan. 31	By Transfer to Trading a/c	240	-	-
			<u>240</u>	<u>-</u>	<u>-</u>			<u>240</u>	<u>-</u>	<u>-</u>

Dr.			CASH PURCHASES A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 5	To Petty Cash					Jan. 31	By Transfer to				
	a/c		15	-	-		Trading a/c		15	-	-
			<u>15</u>	<u>-</u>	<u>-</u>				<u>15</u>	<u>-</u>	<u>-</u>

Dr.			SALES RETURNS A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total of sales retn's posted from S.R.B.	S.R.B.	3	10	-	Jan. 31	By Transfer to Trading a/c		3	10	-
			<u>3</u>	<u>10</u>	<u>-</u>				<u>3</u>	<u>10</u>	<u>-</u>

Dr.		PURCHASES RETURNS A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c		15	-	-	Jan. 31	By Total of purchases retns. posted from P.R. Bk.	P.R.B.	15	-	-
			<u>15</u>	<u>-</u>	<u>-</u>				<u>15</u>	<u>-</u>	<u>-</u>

Dr.		CARRIAGE ON SALES A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 8	To P. Cash a/c .		1	-	-	Jan. 31	By Transfer to			
" 31	" South'n Rly.						P. & L. a/c	2	17	6
	a/c .		1	17	6					
			<u>£2</u>	<u>17</u>	<u>6</u>			<u>£2</u>	<u>17</u>	<u>6</u>

Dr.	A.B.C. GARAGE CO. A/c										Cr.		
							19..				£	s.	d.
							Jan. 10	By Lorries a/c	.		250	-	-
											<u>250</u>	<u>-</u>	<u>-</u>

Dr.		LOSS ON SALE OF LORRY A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 27	To Lorries a/c (loss on sale)		30	-	-	Jan. 31	By Transfer to P. & L. a/c		30	-	-
			<u>30</u>	<u>-</u>	<u>-</u>				<u>30</u>	<u>-</u>	<u>-</u>

Dr.			DISCOUNT A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total of discount (Dr.) posted fr. Cash a/c . . .	C.B.	3	3	5	Jan. 31	By Total of discount (Cr.) posted fr. Cash a/c . . .	C.B.	7	10	-
31	„ Balance transferred to P. & L. a/c . . .		4	6	7						
			<u>£7</u>	<u>10</u>	<u>-</u>				<u>£7</u>	<u>10</u>	<u>-</u>

Dr.		SOUTHERN RAILWAY A/c										Cr.		
							19..					£	s.	d.
							Jan. 31	By Carriage on				1	17	6
								Sales a/c	.					

Dr.		DEPRECIATION A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Lorries a/c .		4	10	-	Jan. 31	By Transfer to P. & L. a/c . . .		4	10	-
			<u>4</u>	<u>10</u>	<u>-</u>				<u>4</u>	<u>10</u>	<u>-</u>

TRIAL BALANCE OF LEDGER A/CS AS ON 31ST JANUARY, 19..

TITLE OF ACCOUNT		Debit balances			Credit balances		
		£	s.	d.	£	s.	d.
Capital a/c					1,990	-	-
Cash a/c		742	16	7			
Stock a/c		550	-	-			
Lorries a/c		585	10	-			
T. Francis a/c		595	-	-			
Petty Cash a/c		34	-	-			
Credit Sales a/c					507	-	-
Cash Sales a/c					35	-	-
Credit Purchases a/c		240	-	-			
Cash Purchases a/c		15	-	-			
Sales Returns a/c		3	10	-			
Purchases Returns a/c					15	-	-
Carriage on Sales a/c		2	17	6			
A.B.C. Garage Co. a/c					250	-	-
Loss on Sale of Lorry a/c		30	-	-			
Discount a/c					4	6	7
Southern Railway a/c					1	17	6
Depreciation a/c		4	10	-			
		£ 2,803	4	1	2,803	4	1

Stock on hand (31st January), £270

Dr.						TRADING A/c FOR THE MONTH ENDED 31ST JANUARY, 19..						Cr.	
To Stock a/c (Jan. 1)	£	s.	d.	£	s.	d.	By Cr. Sales a/c	£	s.	d.	£	s.	d.
„ Cr. Purchases a/c	240	—	—	550	—	—	„ Cash Sales a/c	507	—	—			
„ Cash Purchases a/c	15	—	—					35	—	—			
								542	—	—			
Less Purch. Ret. a/c	255	—	—				Less Sales Ret. a/c	3	10	—			
	15	—	—	240	—	—	„ Stock on hand a/c				538	10	—
											270	—	—
„ Gross profit transferred to P. & L. a/c				18	10	—							
				£808	10	—					£808	10	—

Dr. PROFIT & LOSS A/C FOR THE MONTH ENDED 31ST JANUARY, 19.. Cr.													
	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Carriage on Sales a/c				2	17	6	By Gross profit from						
„ Loss on Sale of							Trading a/c				18	10	—
„ Lorry a/c				30	—	—	„ Discount a/c				4	6	7
„ Depreciation a/c				4	10	—	„ Net loss transferred						
							to T. Atkins Capital				14	10	11
							a/c						

T. ATKINS BALANCE SHEET AS ON 31ST JANUARY, 19..

LIABILITIES						ASSETS							
	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
T. Atkins' Capital (as on Jan. 1st)	1,990	-	-				Motor Lorries	.			585	10	-
Less net loss	14	10	11				Stock on hand	.			270	-	-
				1,975	9	1	Sundry debtors—						
Sundry creditors—							T. Francis	.			595	-	-
A.B.C. Garage Co.	250	-	-				Cash at bank	.	742	16	7		
Southern Railway	1	17	6				Petty Cash	.	34	-	-		
				251	17	6					776	16	7
				251	17	6							
			£	2,227	6	7				£	2,227	6	7

NOTE.—Folio references have been omitted from this worked Exercise, but the student should always include them when working the revisionary exercises.

EXERCISES

In the following exercises the necessary accounts should be opened, purchases, sales and returns should be entered in the respective subsidiary Day Books. Trading, Profit and Loss Accounts and Balance Sheets are to be prepared.

No. 1

On the 1st January, 19.., the financial position of M. Williams, coal merchant, was as follows—Cash in hand £6, cash at bank £900, fixtures and equipment £200, stock of coal £530. Messrs. K. Brown & Co. owed £110, and £62 10s. was owing to L. Hammond. During January the following business transactions were made—

- Jan. 1. Sold to K. Brown & Co. on credit: 150 tons of coal at 26s. per ton and 80 tons at 24s. per ton.
 „ 3. Drew £30 from bank for office purposes.
 „ 5. Bought motor van for £200 and paid by cheque.
 „ 7. Bought on credit from L. Hammond, 300 tons of coal at 20s. 6d. per ton.
 „ 10. Paid from office cash, wages £10 11s. 9d.
 „ 10. Paid rent by cheque, £8 10s.
 „ 12. Messrs. K. Brown & Co. paid £300 on account, less 5% cash discount; cheque paid into bank.
 „ 17. Made an allowance of £10 to K. Brown & Co. for an overcharge.
 „ 25. Sundry cash sales to date, £375; paid into bank, £350 and retained £25 as office cash.
 „ 27. Settled the account of L. Hammond by cheque, less 5% cash discount.
 „ 30. Paid from office cash, wages £11 10s. 4d., and stamps, £2.
 „ 31. Provide for one month's depreciation on motor van at the rate of 10% per annum.
 „ 31. Stock of coal on hand: 340 tons, valued at £1 per ton.

Answer: Gross Profit, £158 10s.; Net Profit, £127 14s. 7d.; Balance Sheet totals, £1,811 4s. 7d.

No. 2

The following balances were extracted from the books of W. Watkins on the 28th February, 19...

- Dr.* balances: Stock (1st February, 19..) £1,345; freehold premises, £1,500; furniture and fittings, £125; purchases (credit), £4,624; returns inwards, £126; office expenses, £480; carriage inwards, £97; cash, £33; bank, £100; discounts allowed, £74; F. Greenwood, £69; salaries, £470.
Cr. balances: Capital (1st February, 19..), £1,781; sales (credit), £7,012; discounts received, £118; C. Hargreaves, £132.

During March (the last month of the trading year) the following transactions were made—

- Mar. 2. Received cheque from F. Greenwood in settlement of his account, less 5% cash discount.
 „ 3. Sold goods on credit to P. Brown, £87 10s.

- Mar. 4. Bought goods £63, and paid by cheque.
 „ 5. Bought goods on credit from F. Appleton, £44 12s. 6d.
 „ 6. Received credit note for £9 12s. 6d. from F. Appleton for goods returned to him.
 „ 9. Paid by cheque, rent, £5.
 „ 12. Withdrew £35 from bank for official use.
 „ 15. Paid from office cash :
 Office salaries, £29 ;
 Carriage on goods sold to P. Brown, £2 10s. ;
 Sundry office expenses, £13.
 „ 25. Cash sales for month, £150, of which £136 was banked and £14 placed in office cash.
 „ 30. Paid £100 to C. Hargreaves ; sent cheque.
 „ 30. Write off one year's depreciation on the furniture and fittings at the rate of 10% per annum.
 „ 31. Stock on hand valued at £1,041.

Answer : Gross profit, £2,000 10s. ; Net Profit, £1,029 1s. ; Balance Sheet totals, £2,877 1s.

No. 3

The financial position of L. Wilkinson, hardware merchant, on the 1st January, 19... , was as follows—

Cash in hand, £210 ; cash at bank, £930 ; motor van, £200 ; furniture and equipment, £150 ; stock of goods, £600 ; G. Dolan owed £90, K. Peach owed £110, and £49 was owing to the New Era Manufacturing Co.

During the month of January the following business transactions were made—

- Jan. 1. Sold to K. Peach, goods valued at £76.
 „ 3. Sold goods for cash, £90.
 „ 8. Purchased from New Era Manufacturing Co. goods, £111.
 „ 12. Purchased goods for cash, £25.
 „ 13. Sold goods to H. Nixon for £100, less 20% trade discount.
 „ 16. G. Dolan settled his account by cheque, deducting 2½% cash discount.
 „ 18. Purchased goods from A. Brand & Co., £80 10s.
 „ 20. Credit note received from A. Brand & Co. in respect of overcharge made, £2 10s.
 „ 22. K. Peach settled his account outstanding at 1st January and deducted 2½% cash discount. Payment made by cheque.
 „ 26. Paid office expenses from cash, £20.
 „ 29. Sent cheque for £49 to New Era Manufacturing Co.
 „ 29. Paid from office cash for repairs to motor van, £5.

- Jan. 31. Paid from office cash, the following—
 Office salaries, £35 ;
 Office rent, £10 ;
 Typewriter repairs, £2 10s.
 „ 31. Sold goods for cash, £25.
 „ 31. Provide for one month's depreciation on motor van at
 rate of 20% per annum.
 „ 31. Stock of goods on hand valued at £650.

Answer : Gross profit, £107 ; net profit, £26 3s. 4d. ; Balance Sheet
 totals, £2,456 3s. 4d.

No. 4

G. Dutnall, who was in business as a provision merchant, had the following assets and liabilities on the 1st January, 19...—

Stock, £870 1s. 3d. ; furniture and fittings, £82 ; delivery van, £100 ;
 cash in hand, £45 12s. 6d. ; cash at bank, £298 4s. 6d. Debtor, W.
 Larvin, £25. Sundry creditors, A. King & Co., £133 7s. 6d. ; Wholesale
 Supply Co., £237 10s. 9d.

The following were the transactions for the month of January, 19...

- Jan. 2. Sent cheque for £100 to Wholesale Supply Co.
 „ 6. Sent cheque for £130 to A. King & Co. in settlement of
 account for £133 7s. 6d.
 „ 7. W. Larvin settled his account, deducting 2½% cash dis-
 count. Payment made by cheque.
 „ 9. Purchased from Wholesale Supply Co., one gross tins of
 fruit at 2s. per tin, less 25% trade discount.
 „ 10. Sold W. Larvin on credit, goods valued £15 19s. 3d.
 „ 12. Cash sales, £14 15s. 6d.
 „ 13. Returned to Wholesale Supply Co., 6 tins of fruit found
 to be damaged—allowance made.
 „ 14. Paid from office cash—
 Wages, £7 ;
 Petrol and oil, £3 7s. 6d ;
 Office stationery, 5s.
 „ 19. Cash sales, £19 18s. 6d.
 „ 20. Made cash refund to customer for goods returned, 15s. 3d.
 „ 29. Purchased by cheque a new motor van for £125.

Stock of goods on hand at 31st January valued at £902.

Delivery van standing in books at £100 to be depreciated by £3.

Answer : Gross profit, £71 9s. 9d. ; net profit, £60 12s. 3d. ; Balance
 Sheet totals, £1,258 10s.

No. 5

The following Trial Balance was extracted from the books of W. Robinson on the 30th November, 19..—

	Dr. £	Cr. £
Shop premises	1,200	
Furniture and fittings	150	
Stock (1st January, 19..)	1,436	
Credit sales		8,041
Returns inwards	159	
Credit purchases	6,735	
Returns outwards		252
Office expenses	640	
Carriage outwards	160	
Carriage inwards	145	
Salaries	445	
Discount received		15
Discount allowed	10	
Debtors :		
F. Dilcock	74	
A. Wright	33	
Creditors :		
A. Bury		318
C. Blake		152
Cash	37	
Bank	224	
Capital, W. Robinson		2,670
	<u>£11,448</u>	<u>£11,448</u>

The following were the business transactions for the month of December, 19..—

- Dec. 1. Received from F. Dilcock a cheque for the amount of his account.
- „ 3. Sold goods on credit to G. Cook, £94.
- „ 6. Bought goods by cheque, £82.
- „ 9. Received cheque for £33 from A. Wright.
- „ 12. Sold goods on credit to F. Dilcock, £154.
- „ 12. Paid £5 out of cash for carriage on goods sold to F. Dilcock.
- „ 17. Paid from cash, £23 for salaries.
- „ 21. Paid A. Bury £100 on account ; sent cheque.
- „ 24. Withdrew £50 from bank for office cash.
- „ 24. Paid from cash sundry office expenses, £16.
- „ 29. Sent a credit note for £25 to F. Dilcock for goods returned.
- „ 31. Cash sales, £36 (not banked).
- „ 31. Write off 10% of the furniture and fittings for depreciation.
- „ 31. Stock on hand at 31st December, 19.., valued at £1,075.

Answer : Gross profit, £1,070 ; net loss, £229 ; Balance Sheet totals, £2,811.

CHAPTER VI

RECORDING Expenses—Purchases of Services—Sales of Services—Manufacturing Expenses and Selling and Distribution Expenses—Recording of Fixed Assets—Day Book for Goods, Expenses, and Fixed Assets—Costs of Production—Valuation of Manufacturer's Stocks on Hand—Businesses with Production and Retail Departments—Materials Issued Day Book—Goods on Approval—Accepting an Offer (e.g. estimate) for Work to be Done—Packing Cases, etc., and Carriage—Packing Cases—Seller's Books—Carriage—Record in Seller's Books—Exercises.

Recording Expenses. Just as goods are bought and sold on credit or for cash so are *services*.

In this chapter we shall deal *only with services bought on credit*; those bought for cash will be considered in the next chapter in connection with the further use of the Petty Cash a/c.

Purchases of Services. Manufacturing concerns, particularly, have to obtain many kinds of services in order to get their goods made and sold. For example, they buy different kinds of labour for (1) operating production machinery; (2) attending to power plant; and (3) general factory work, such as looking after stores and warehouses, supervising factory staff, organizing and maintaining production, clerical work, etc. They also have to get services like lighting, heating, and water from local authorities, as well as those for which an inclusive charge (local rate) is payable. In addition, services are required for a concern's fixed assets (machinery, lorries, buildings, etc.), quite apart from those supplied by the workers who operate or attend to them.

The cost of *using* fixed assets is represented by their loss of value (i.e. the amount of depreciation) caused by wear and tear, *and this loss of value through service*, like other costs, has to be recovered out of the prices charged for the manufactured goods. The cost of all services which assist in the manufacture *and sale* of goods must be included in the sale prices of goods, as otherwise the manufacturer or trader would lose part of his floating and fixed capital.

Hence, it is necessary to record the purchases of services in such a way that enables them to be *classified* so that, when their costs have to be recovered from the sales of the firm's

products, it is possible to deal with each individual *class* of service and allocate a proportion of its cost to the production cost of the goods it has helped to make. This work is done by a separate accounting department, called a Costing department, with whose work we are not concerned.

Sales of Services, on the other hand, usually refer to those which a business trades in and which, for book-keeping purposes, are regarded as sales of "goods." For example, a garage undertakes or sells "repairs," "overhauls," "maintenance work," etc., and so charges for these services would be passed through the Sales Day Book in the same way as sales of goods.

Manufacturing Expenses and Selling and Distribution Expenses. In this chapter we shall endeavour to show how *expenses* for services *bought on credit* are conveniently and systematically dealt with by—

- (a) *first of all classifying them in a Purchases and Expenses Day Book, suitably ruled for the purpose.*
- (b) *then recording the various classified groups in the Ledger in the same manner as is done for credit purchases of goods.*

Some forms of service can be recognized by the names given to the *cost* of purchasing them, e.g. "wages" for labour; "rent" for hiring a thing; "depreciation" for wear and tear, and obsolescence.

Let us suppose a manufacturer has to obtain the services set out on page 107. The expenses for these have been placed in two groups, viz.—

- Group (A) for manufacturing services ;
 „ (B) for selling and distribution services.

Whereas a manufacturer may be faced with all the forms of expense shown under (A) and (B), the trader will normally incur only those under (B).

As already mentioned, it is customary to put items of services into pre-arranged classified groups in the same way as for purchases and sales of goods so that they may be more conveniently recorded in the Ledger. Care must be taken to see that items of service are allocated to the classes to which they belong. As invoices are received for services bought on credit, these can be numbered in such a manner as to indicate the class of expense to which they refer.

(A) Manufacturing Services and their Costs	(B) Selling and Distribution Services and their Costs
<p>1. <i>Labour</i>. The cost of this includes—</p> <ul style="list-style-type: none"> (i) wages of workers <i>directly</i> employed in making goods for sale. (ii) wages of other factory workers. (iii) wages of factory or works clerical staffs, such as those in the Wages Dept., Purchasing Dept., Stores Dept., etc. <p>2. <i>Additional manufg. costs</i>, such as cost of power for machinery (electricity, gas, water).</p> <ul style="list-style-type: none"> „ lighting and heating of factory depts. „ consumable stores, like oil, cleaning materials, thread, nails, etc. „ repairs to fixed assets. „ depreciation of fixed assets. „ insurances (employer's contributions, workmen's compensation, etc.). „ stationery, telephone, etc. 	<p>1. <i>Labour</i>. The cost of this includes—</p> <ul style="list-style-type: none"> (i) wages of sales staff, warehousemen, packers and those on delivery work. (ii) wages of staffs in retail shops (if any). <p>2. <i>Additional trading costs</i>, such as—</p> <p>Cost of carriage on sales. (unless it is recoverable from customers).</p> <ul style="list-style-type: none"> „ stationery, t'phones, postages. „ repairs to fixed assets (vans, etc.) used for delivery of goods sold. „ cleaning materials for Sales dept., lighting, heating, and repairs. „ rent of shops (if any). „ depreciation of Sales dept. and other fixed assets.

For example, jobs like “a repair to factory wall,” or “a repair to windows in the stores department,” could both be classified under one class of expense called “Repairs to Buildings.” If Repairs to Buildings a/c had a classification or group number, say, S 10 (“S” for service work), the order forms to a local builder and his subsequent invoices for these two jobs could both be numbered S 10—with additional identification numbers, say 4 and 5 (i.e. S 10/4 and S 10/5), to show that they were the fourth and fifth jobs of this *class* of service work done since the beginning of the financial year. In this way, the proprietor can trace every individual item

of expense, and also have a record of the amount of each *class* of expense incurred month by month.

All this can be done by the use of classification numbers, and the Purchases Day Book can be adapted to include items of expense, as well as goods, simply by adding extension columns for the classes it is desired to cater for.

When the Purchases Book is used for this purpose, it is often referred to as a Purchases and Expenses Day Book or an *Invoice Analysis Book*, but we shall continue to refer to it as the *Purchases Day Book*.

Although the Purchases Day Book will have these additional analysis columns to cater for services purchased *for use*, the Sales Day Book, on the other hand, will not require additional columns *for this purpose*, as sales of services on credit are in the same category as goods sold on credit and will therefore be entered in the "goods" or similar column of the Sales Day Book.

Recording of Fixed Assets. Fixed assets bought on credit may also be recorded in the Purchases Day Book—in *appropriate columns*—preparatory to being posted to their respective Ledger a/cs, in exactly the same manner as for expenses. Fixed assets can be classified under titles like "power machinery," "productive machinery," "office furniture and equipment," etc., and there will be a column for each *class* of fixed asset in the Day Book. Postings will be made from the Day Book to the suppliers' accounts concerned when purchases are made, and at the end of each month, the monthly totals will be posted to the respective asset accounts in the Ledger.

Day Book for Goods, Expenses, and Fixed Assets. In the example of an analytical Purchases Day Book shown on page 110, the transactions refer to retail trading only. Manufacturing expenses will be dealt with in a later chapter of the book.

Example. The following transactions were dealt with by H. Spriggs, in January, and were recorded in his Purchases Day Book and Ledger a/cs concerned.

The words in brackets refer to the *class* of service expense or class of fixed asset, respectively.

For typographical reasons the Purchases Day Book is shown on page 110 instead of at the beginning of the worked example.

During January, 19.., H. Spriggs, boot and shoe dealer, had the following transactions—

- Jan. 2. Bought shoes from H. Jones for £100, less 30% trade discount.
 „ 4. Bought office stationery from T. Wright for £1 10s. (*stationery*).
 „ 7. Bought boxes from J. Stringer, £2 (*packing materials*).
 „ 8. Received invoice from T. Rider & Co. for engine repairs to car, £3 (*repairs to car*).
 „ 10. Bought boots and shoes from H. Tanner & Co., £35.
 „ 12. Bought new chairs from the Tubular Chair Co., £12 (*furniture and fittings*).
 „ 15. Received invoice from Railway Co. for goods sent by rail, 15s. (*carriage on sales*).
 „ 17. Received quarterly invoice from Boro. Electricity Co., £4 10s. (*electricity*).
 „ 19. Bought new tyres for car from T. Rider & Co., £4 15s. (*repairs to car*).
 „ 22. Bought new car for traveller from T. Duncan & Co., £120 (*cars*).
 „ 27. Received invoice from Mercury Publishing Co. for advertisements, £2 10s. (*advertising*).
 „ 27. Bought new show-case for shop from Display Co., Ltd., £14 (*office furniture and fittings*).
 „ 31. Bought additional electric fittings from Boro' Electricity Co., £10 (*furniture and fittings*).
 „ 31. Received invoice from A.B. Printing Co. for printing sales posters and handbills, £1 15s. (*advertising*).

Ledger a/cs in books of H. Spriggs.

Dr.						H. JONES A/c		Folio 20		Cr.		
						19.. Jan. 2	By Goods	P.D.B. 84	£ 70	s. -	d. -	
Dr.						T. WRIGHT A/c		Folio 21		Cr.		
						19.. Jan. 4	By Office Statny. a/c	P.D.B. 84	£ 1	s. 10	d. -	
Dr.						J. STRINGER A/c		Folio 22		Cr.		
						19.. Jan. 7	By Pking. Mat- erials, a/c	P.D.B. 84	£ 2	s. -	d. -	
and so on for other personal accounts.												
Dr.						PURCHASES A/c		Folio 52		Cr.		
19.. Jan. 31	To Total of Cr. purchases for Jan., from P.D. Bk.	P.D.B. 84	£ 105	s. -	d. -							

PURCHASES DAY BOOK OF H. SPRIGGS

Folio 84

Date	Inv. No.	Supplier	Led. Fol.	Total	Goods Purchased	Expenses (classified)						Fixed Assets (class'fd)			
						Office Stat'ny (S1)	Repairs to Car (S2)	Carriage on Sales (S3)	Adver- tising (S4)	Packing Materls. (S5)	Electy. etc. (S6)	Furntre. and Fittings	Cars	Etc.	
Jan.				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	
2	17	H. Jones	20	70	-	-	-	-	-	-	-	-	-	-	
4	24	T. Wright	21	1 10	-	1 10	-	-	-	-	-	-	-	-	
7	25	J. Stringer	22	2	-	-	-	-	-	-	-	-	-	-	
8	26	T. Rider & Co.	etc.	3	-	-	-	-	-	-	-	-	-	-	
10	18	H. Tanner & Co.		35	-	-	-	-	-	-	-	-	-	-	
12	27	Tubular Chair Co.		12	-	-	-	-	-	-	-	12	-	-	
15	28	Railway Co.		15	-	-	-	-	-	-	-	-	-	-	
17	29	Boro' Electy. Co.		4 10	-	-	-	-	-	-	4 10	-	-	-	
19	30	T. Rider & Co.		4 15	-	4 15	-	-	-	-	-	-	-	-	
22	31	T. Duncan		120	-	-	-	-	-	-	-	120	-	-	
27	32	Mercury Pg. Co.		2 10	-	-	-	2 10	-	-	-	-	-	-	
27	33	Display Co.		14	-	-	-	-	-	-	14	-	-	-	
31	34	Boro' Electy. Co.		10	-	-	-	-	-	-	10	-	-	-	
31	35	A.B. Printing Co.		1 15	-	-	-	1 15	-	-	-	-	-	-	
Totals for January				£ 281 15	-	1 10	-	7 15	-	4 5	-	36	-	120	-
					L. Fol. 52	L. Fol. 74	L. Fol.	L. Fol.	L. Fol.	L. Fol.	L. Fol.	L. Fol. 46	L. Fol.	L. Fol.	

COSTS OF PRODUCTION

III

Dr.	(Sr) OFFICE STATIONERY A/c						Folio 74	Cr.
19.. Jan. 31	To Total of Sundries for Jan. from P.D.Bk.	P.D.B. 84	£	s.	d.			
			1	10	0			

Dr.	FURNITURE & FITTINGS A/c						Folio 46	Cr.
19.. Jan. 31	To Total of Sundries for Jan., from P.D. Bk.	P.D.B. 84	£	s.	d.			
			36	-	-			

And so on for remaining service and fixed assets accounts.

Costs of Production. We can now refer to the two classified lists of services (*A* and *B*) set out on page 107 of this chapter. Those listed under (*A*) are required to turn raw materials (e.g. leather) into the finished product (e.g. boots and shoes).

The *primary* costs for this purpose are—

- (a) the cost of *raw materials*, which will include the cost of carriage and packing (if any) on incoming materials;
- (b) wages of workers *directly* employed on making the goods.

This class of labour is known as “direct labour.” Costs (a) and (b) make up what is known as the *prime cost of production*. In passing, it should be noted that the words “expense,” “wages,” “rent,” “charge,” etc., are variations of the word “cost,” to indicate the cost of a particular *class* of service to which each relates.

Production of goods will require the use of the remaining manufacturing services shown under A (2). All these, together with (a) and (b) *above*, make up the production cost of goods. It is always important for a proprietor to compare production cost of goods sold in any period with the amount received from the sale of such goods so that he may know, first of all, whether his *basic* costs are favourable or otherwise. This is why a manufacturer's Trading a/c is drawn up to provide this information.

The difference between the two sides of his Trading a/c will represent the gross profit or loss. It should be noted that it would not satisfy his requirements to construct an account relating to manufacturing costs only, because he wishes to know how much *profit or loss* he makes, and he can only do this by comparing costs with income from sales.

The following manufacturer's Trading a/c illustrates the composition of manufacturing costs—

Dr. TRADING A/c OF ——— FOR THE YEAR ENDED 31ST DECEMBER, 19.. *Cr.*

<i>Production Expenses as under—</i>	£	£		£	£
To Stock a/c (Jan. 1)	10,000		By Sales a/c	70,000	
„ Purchases a/c (raw mat'ls)	30,000		Less Sales Returns a/c	200	69,800
	40,000				
Less Purchases Returns a/c	500				
	39,500				
Less Stock on hand (on Dec. 31)	12,000				
Stock used	27,500	27,500			
„ Wages (direct labour)		17,600			
„ Other manufg. expenses (i.e. those under A(2))		15,000			
„ Gross profit transferred to P. & L. a/c		9,700			
	£ 69,800			£ 69,800	

The remaining expenses (those under *B*) are selling expenses and the accounts for these will be transferred to the P. & L. a/c, with a view to finding the net profit.

If desired, the expenses columns in a manufacturer's Purchases Day Book may be classified into two groups so as to make a clear distinction between manufacturing expenses and sales and distribution expenses. All the columns can be numbered for this purpose, and the same (service) numbers can be given to the titles of the expense accounts concerned, so as to facilitate correct Ledger postings and, at the end of the year, correct transfers to the Trading and P. & L. a/cs.

The P. & L. a/c is now shown as under—

Dr. P. & L. A/c FOR THE YEAR ENDED 31ST DECEMBER, 19.. *Cr.*

	£		£
To Sales expenses (say) (i.e. those under <i>B</i>)	5,000	By Gross profit from Trading a/c	9,700
„ Net profit transferred to Capital a/c	4,700		
	£ 9,700		£ 9,700

Traders, on the other hand, sell their goods in the same form as when they are bought, so that they are mainly concerned with sales and distribution expenses, and their Trading a/cs will resemble the one shown on page 100 in Chapter V. The wages they pay will mostly relate to the sale and distribution of goods. This will also apply to expenses like lighting and heating, and so all costs like these will appear in the P. & L. a/c rather than in the Trading a/c.

Valuation of Manufacturer's Stocks on Hand. Whereas a trader's stock-on-hand at any time will consist of finished goods ready for sale, a manufacturer's stock will be made up of—

- (a) raw materials in the stores department ;
- (b) raw materials and partly made-up goods in the factory or works department ;
- (c) finished goods, ready for sale, in the warehouse.

The valuation of raw materials in the stores department may be obtained from the stock sheets or cards which are kept by that department. These sheets show the balances of raw materials on hand *in the stores department* at any time.

As we know, the system of accounting we are now studying is mainly concerned with recording *trading* activities and the results of trading. While this system can be used to record the cost of all raw materials, labour, and manufacturing services that are bought for manufacturing purposes, it is not suitable for showing the amounts of wages and other manufacturing expenses that go to make up the cost of production of customers' *individual* orders. This is because expenditure on labour and manufacturing services is debited to the expense accounts concerned and subsequently transferred to the Trading a/c.

The production costs of customers' orders are worked out by a separate department of the accounting staff—known as the costing department—and so it is this department which supplies the general accounting department with the values of partly manufactured goods and of manufactured goods in the factory department.

The subject of Costing is dealt with in detail in Part III of this work, but in order to preserve the continuity of this section, this aspect of the work of the costing department is mentioned.

As an illustration, let us suppose that on 31st December, the costing department supplied the general accounting department with the following yearly figures for manufacturing—

<i>Raw materials</i> in stores (1st January)	£ 1,000
(P.S.—No partly manufactured goods or finished goods on hand on that date)	
<i>Purchases</i> of raw materials during year	50,000
<i>Raw materials taken from store</i> for manufacturing	30,000
(of which £2,000 formed part of partly-manufactured goods in factory on 31st December and £3,000 formed part of unsold finished goods in warehouse on 31st December)	
<i>Wages of direct labour</i>	18,500
(of which £1,000 formed part of partly manufactured goods on 31st December and £1,500 formed part of unsold goods in warehouse on 31st December)	
<i>Manufacturing expenses</i>	9,000
(of which £500 formed part of partly manufactured goods at 31st December and £500 formed part of finished goods on 31st December)	
<i>Sales and distribution expenses on goods sold</i>	1,000
Value of goods sold (from accounts dept.)	57,000

The above information may be set out in the form of a statement, as follows—

Item	Raw Materials	Partly manufd. Goods (31st Dec.)	Finished goods in Warehouse (31st Dec.)	Constituent Costs of Goods Sold
	£	£	£	£
Raw materials (as on 1st Jan.)	1,000	—	—	—
Purchases for year	50,000	—	—	—
	51,000			
Raw materials used for manufacturing	30,000	2,000	3,000	25,000
Wages of direct labour (£18,500)	—	1,000	1,500	16,000
Manufacturing expenses (£9,000)	—	500	500	8,000
Sales expenses on goods sold (£1,000)	—	—	—	1,000
	£21,000	£3,500	£5,000	£50,000
	(Raw materials on hand on 31st Dec.)	(Value of partly manfd. goods on 31st Dec.)	(Production cost of finished goods in Warehouse on 31st Dec.)	(Sales cost of goods sold)

The above information can now be set out as a Trading a/c—

MANUFACTURER'S TRADING A/c FOR THE YEAR ENDED				
Dr.		31ST DECEMBER, 19..	Cr.	
To Stock on hand (1st Jan.)	£	1,000	By Sales for year	£ 57,000
„ Purchases	50,000		„ Stocks on hand (31st Dec.)—	
„ Wages (direct labour)	18,500		(i) Raw materials	21,000
„ Other manufg. wages and expenses	9,000		(ii) partly manufd. gds.	3,500
„ Gross profit transferred to P. & L. a/c	8,000		(iii) Finished goods	5,000
	<u>£86,500</u>			<u>29,500</u>
				<u>£ 86,500</u>

MANUFACTURER'S PROFIT & LOSS A/c				
Dr.		FOR THE YEAR ENDED 31ST DECEMBER, 19..	Cr.	
To Sales Expenses (various)	£	1,000	By Gross Profit from Trading a/c	£
„ Net Profit to Capital a/c	7,000			8,000
	<u>£8,000</u>			<u>£8,000</u>

Businesses with Production and Retail Departments. As already mentioned, some firms find that they can profitably combine some form of contracting or production work with that of retailing. This applies to such forms of business as garages, repair work, plumbers, decorators, leather trades, and so on. As these two types of activity are generally distinctive, it will usually be an advantage for the owner of a business with a production as well as a retail department, to know whether *each* side of his business is being run profitably, and to what extent; and he will be able to get these details only if his accounts are designed to give him this information.

In order to get these facts he will have to know the gross profit or loss on *each* side of his business, and so it will be necessary to prepare *two* distinct Trading a/cs—one for the productive side, and the other for the purely trading or retail side. The Trading a/c for the productive side of the business may, for clarity, be termed a Manufacturing a/c; or if it is contracting work, like building, etc., it may be called a Sundry Jobs a/c, Works a/c, etc. In the following example it has been termed a Sundry Jobs a/c, and the gross profit or loss from such an a/c is transferred to the P. & L. a/c in the same way as the gross profit and loss from the Trading a/c (i.e. the retail side of the business).

Example. W. Nix is a builder and decorator. On 1st July he has stocks of materials valued at £600 and uncompleted jobs in hand, £350. The following transactions took place from 1st July to 10th July—

- July 1. Bought building materials on credit from Builders' Supply Co., £100.
- „ 2. Sold materials for cash, £25.
- „ 3. Sold materials on credit to Hall & Co., £95.
- „ 3. Paid rent of premises, £6 10s., by cheque.
- „ 5. Paid from office cash, £2, for stationery, etc.
- „ 8. Bought materials for cash, £10.
- „ 10. Drew cheque and paid wages, £60, and lorry hire, £10.
- „ 10. Rendered accounts to the under-mentioned for completed jobs—
 F. Brown & Co., £93 10s.
 W. Johnson, £45.
 L. Wilkins, £60.
- „ 10. The analysis columns of the employees' Wages Book showed that wages totalling £49 10s. had been directly incurred in connection with decorating and repair jobs.
- „ 10. The Materials Issued Day Book showed that the total cost of materials taken from store for use on decorating and repair jobs amounted to £89
- „ 10. Stocks on hand at this date were valued at £546: and the estimated value of uncompleted jobs (i.e. work-in-progress) was £349 10s.

Materials Issued Day Book. The total cost of materials taken from store for use on jobs was £89. When materials are issued from store for use on production and repair jobs, or for sale, the storekeeper records the issues on “stores issued notes.” Copies of all such notes have to be sent to the *costing department* and notes which are issued in connection with *production and repair work* will be entered by that department in a Day Book, called a *Materials Issued Day Book*, which will be kept on similar lines to other day books. An illustration of this Day Book is given on page 117.

The Materials Issued Day Book will be totalled at the end of each calendar month, or four-weekly period, and the costing department will inform the financial department as to what these totals are. As the financial department will need only monthly totals, it can record these either by means of Journal entries or in a modified form of Materials Issued Day Book, which will act as a primary book from which entries are made to the respective Ledger accounts.

The work of the costing department is mainly concerned with recording the *cost of jobs* undertaken and leaves the *personal* aspect of jobs to the financial department. This is why the costing department's Materials Issued Day Book is ruled with analysis columns for *jobs*, instead of for persons. These columns are required to enable the costing department to post the materials-cost of each job to the corresponding Job a/c, which is kept in *their* Cost Ledger. This matter, however, is explained fully in Part III of this book, which deals with the cost accounting side of businesses.

The following is a ruling of a "Day Book for Materials issued to Jobs," as kept by the costing department.

MATERIALS ISSUED DAY BOOK (JOBS)

Date 19..	Storekprs Issue Note No.	Particulars of materials issued	Required for Job No.	Cost Price of Materials	Analysis of materials issued							
					Job No. 1		Job No. 2		Job No. 3		Job No. 4 etc.	
July				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
3	1	Materials specified	1	7 10 -	7 10 -							
4	2	Do.	3	12 10 -					12 10 -			
5	3	Do.	1	15 - -	15 - -							
7	4	Do.	2	25 - -			25 - -					
8	5	Do.	4	13 - -							13 - -	
8	6	Do.	1	7 - -	7 - -							
9	7	Do.	3	4 - -					4 - -			
10	8	Do.	3	5 - -					5 - -			
		Totals for January		£89 - -	£29 10 -	£25 - -	£21 10 -	£13 - -				

When, on the 31st January, the financial department is supplied with the January total of materials issued for jobs, it can record this amount in its own Materials Issued Day Book, which can be simplified to show totals only, e.g.—

MATERIALS ISSUED DAY BOOK (FOR FINANCIAL DEPT.)

Folio 4

Year and month	Materials issued from Store to Job Dept.	Postings to Ledger a/cs concerned			
		Account debited	Led. Folio	Account credited	Led. Folio
19.. July	£ s. d. 89 - -	Materials charged to Jobs Account	37	Materials issued to Jobs Account	40
Aug. Sept. etc.	etc. etc. etc.				

Ledger a/cs concerned.

Ledger Folio 37

Dr.		MATERIALS CHARGED TO JOBS A/c							Cr.		
		D. Bk. Folio	£	s.	d.			D. Bk. Folio	£	s.	d.
19.. July 31	To Total of stores issued for Janu- ary, 19..	M.I. D. Bk. 4	89	-	-						

Dr.	MATERIALS ISSUED TO JOBS A/c										Ledger Folio 40		Cr.
							19.. July 31	By Total of stores issued for Janu- ary, 19..	M.I. D. Bk. 4		89	-	-

At the end of the financial year the monthly totals in the above accounts would be transferred to Sundry Jobs a/c (Dr.) and the Trading a/c (Cr.) respectively.

Uncompleted Jobs a/c and Final Accounts for preceding Exercise.

Dr.		UNCOMPLETED JOBS A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
July 1	To Balance . . .		350	-	-	July 1	By Transfer to Sundry Jobs a/c .		350	-	-
			<u>350</u>	<u>-</u>	<u>-</u>				<u>350</u>	<u>-</u>	<u>-</u>
July 10	To Sundry Jobs a/c		349	10	-						

Dr.			SUNDRY JOBS (or CONTRACTS) A/c, 10TH JULY, 19..						Cr.		
19..			£	s.	d.	19..			£	s.	d.
July 1	To Uncompleted Jobs a/c (jobs on hand)		350	-	-	July 10	By Completed Jobs a/c		198	10	-
" 10	" Wages a/c		49	10	-	" 10	" Uncompleted Jobs a/c (work in progress)		349	10	-
" 10	" Lorry Hire a/c		10	-	-						
" 10	" Materials chrgd. to Jobs a/c		89	-	-						
" 10	" Gross profit transferred to P. & L. a/c		49	10	-						
			£ 548	-	-				£ 548	-	-

TRADING A/c FOR PERIOD ENDED 10TH JULY 19..										Cr.									
Dr.																			
19..				£		s.		d.		19..				£		s.		d.	
July	1	To Stock	.	b/d	600	-	-	-	-	July	10	By Cr. Sales a/c	.		95	-	-	-	-
"	10	" Cr. Purch. a/c	.		100	-	-	-	-	"	10	" Cash Sales a/c	.		25	-	-	-	-
"	10	" Cash Purchs. a/c	.		10	-	-	-	-	"	10	" Materials issued	.						
"	10	" Gross profit								"	10	" to Jobs a/c	.		89	-	-	-	-
		" transferred	to							"	10	" Stock on Hand	.						
		P. & L. a/c	.		45	-	-	-	-			a/c	.	c/d	546	-	-	-	-
					£	755	-	-	-						£	755	-	-	-

Dr.		PROFIT & LOSS A/c FOR PERIOD ENDED 10TH JULY, 19..						Cr.	
19..		£	s.	d.	19..		£	s.	d.
July 10	To Rent	6	10	-	July 10	By Gross profit			
" 10	" Stationery a/c	2	-	-		(a) Sundry Jobs			
" 10	" Wages a/c	10	10	-		a/c	49	10	-
" 10	" Net profit transferred to Capital a/c	75	10	-		(b) Trading a/c	45	-	-
		£94	10	-			£94	10	-

Goods on Approval. As the act of sending or receiving goods on approval is *not* a transaction, no double-entry book-keeping records are made when this takes place. It is sufficient to keep a Goods on Approval Book, with suitable rulings, to record the dispatch or receipt of such goods, and their return (if they are not accepted). A transaction takes place only when the receiver intimates that he has accepted the goods. When this happens, the transaction is recorded by both parties in the usual way. This is illustrated in the following exercise.

Accepting an Offer (e.g. Estimate) for Work to be Done. This is the usual method whereby two people enter into a written agreement for the *performance* of a contract (e.g. carrying out of work, etc.) at some future time. Although the agreement may be legally binding on the parties concerned, the written agreement or contract *must be distinguished from the work, or job itself*.

The party doing the work may record the agreement in a memorandum or contract book so that he may have an undisputable record of the particulars of the contract, but no book-keeping entries will be made in connection with the contract until work is done or financial transactions take place between the parties. In the exercise at the end of this chapter, H. Watkins completed an agreement with the A.B.C. Engineering Co. on 5th January. No transaction took place on that date and so no book-keeping entries would be made on the 5th January.

Packing Cases, etc., and Carriage. The sale price of goods normally includes all production and distribution costs incurred on them, including packing materials and cases, and carriage, if these are provided by the seller. This will be so if his packing cases are *not* returnable and if the seller uses his own vans or lorries for distributing his goods.

In some cases, however, packing cases are returnable to the seller as they will be required over and over again. As regards distribution, the seller may find it more economical to use the services of a carrier or a railway company, instead of providing the means of carriage himself.

Packing Cases. If, on account of exceptional circumstances, the seller makes a separate charge for cases in an invoice, *and the cases are not returnable*, the *buyer* should add the cost of this item to the price of the goods, and "goods" and "packing cases" will then appear as *one* item in the *goods* column of his Purchases Day Book. This method is followed because the charge for cases forms part of the buyer's cost price of the goods.

In regard to "returnable" packing cases, however, the *buyer* may consider it advisable *not* to merge the charge for packing cases, etc., in the price of goods when he records the invoice in his Purchases Day Book. This can be done by having a special expenses analysis column in the book entitled "Returnable packing cases, etc." As returnable cases are not retained by the buyer, they will not form part of the cost price of the goods. This point will be noted by the stock record clerk when he enters up the stock record sheets for such purchases.

The *buyer* will credit the seller's account with the full amount of the invoice (as shown in the "total invoice column"). The Purchases a/c will be debited with the amount of the "Goods" column, and the Returnable Cases a/c debited with the amount of the column for returnable cases. When the cases are sent back and the buyer receives a credit note, he will enter this in his Purchases Returns Book—the amount being shown in a special analysis column called "Returned Cases"—so that it is not placed in the column reserved for allowances on *goods*. The record in this book will enable the buyer to credit his Returnable Cases a/c and debit the Seller's a/c.

Seller's Books. When the seller makes a separate charge on the invoice for packing materials or cases, he will need a special analysis column in his Sales Day Book to show this, so that the column for goods may be kept for goods (sales) only. Such a column in the Sales Day Book will need a corresponding account for "Packing Cases, etc.," in the Ledger,

and this account will be credited with the monthly total of the analysis column of the Sales Day Book. The buyer's account will be debited, in *one* sum, with the amount of the invoice.

When packing cases are returned and a credit note is issued, the seller will record this in his Sales Returns Book (in a special analysis column for Returned Packing Cases, etc.). Postings from this book will be credited to the Purchasers' a/cs concerned and debited to the Returnable Packing Cases a/c.

Carriage. (a) *Carriage Provided by the Seller.* When carriage is normally provided by the seller, the annual cost of this will be spread over the goods sold during the year, so that an equitable proportion is absorbed by each sale. The cost of carriage is thus incorporated in the sale price of the goods as it is part of the seller's expenses of distribution which he has to recover. In such cases, carriage will not normally appear as an independent item in the sales invoices.

(b) *Carriage Supplied to the Seller.* Consider the following invoice.

INVOICE. No. 281.	24, JOHN STREET, S.E. 1.	21st January, 19..			
MESSRS. T. JONES & Co., 14, NEW STREET, S.E. 4.					
Bought of J. DUNN & Co., LEATHER MERCHANTS.					
Catalogue No. etc.	Amount	Particulars	£	s.	d.
24/3	12 doz. pairs	Slippers	13	10	—
		Carriage		12	—
			<u>£14</u>	<u>2</u>	<u>—</u>

When carriage is supplied by an independent carrier or railway company, the seller may recover the cost by including it separately on the invoice, as above.

Record in Buyer's Books. When the buyer records the above invoice in his Purchases Day Book, the carriage will be merged with the goods and both entered in the "Goods" column, so that the cost of the goods to him will include the cost of carriage. Carriage on purchases is, therefore, a trading expense, although there may be no separate account for it.

Record in Seller's Books. When a seller buys carriage from a carrier, etc., he will record the carrier's invoice for carriage in his *Purchases* Day Book, in a special expense analysis column for "Carriage on Sales." Transactions relating to carriage on *sales* may therefore appear in the Purchases Day Book and the Sales Day Book—the former for carriage *purchased* from carriers, etc., and the latter for carriage charged (i.e. *sold*) to customers. The amount shown in the "Total of Invoice" column in the Sales Day Book will be debited to the buyer's account and the totals of the "Goods" and "Carriage on Sales" columns will be credited to the Sales a/c and Carriage on Sales a/c respectively. When carriage is paid, the Cash a/c is credited and the Carrier's a/c is debited. At the end of the year, the Carriage on Sales a/c is balanced and transferred to the P. & L. a/c—not the Trading a/c—as it does not form part of the production cost of the goods, as carriage on purchases does.

Example relating to Packing Materials, etc., and Carriage.

- Mar. 1. J. Jones bought packing cases and materials from T. Oaks, £10.
- „ 3. Jones sold leather goods to H. Hyde & Co., £35. Additional charges were : packing materials (not returnable) £1 ; and carriage, 10s.
- „ 6. Jones received invoice from J. Miles, carrier, for carriage on sales during February, £2 10s.
- „ 15. Jones sold leather goods to H. Hyde & Co., £65. Additional charges : packing materials (returnable), 15s. ; and carriage, 17s. 6d.
- „ 17. H. Hyde & Co. returned packing cases and received credit note for 15s.
- „ 31. J. Jones received invoice from J. Miles for carriage on sales in March, £1 7s. 6d.
- „ 31. Received credit note from J. Miles, carrier, for 2s. 6d. in respect of surcharge in February invoice.

(a) Records in Books of J. Jones.

SALES DAY BOOK

Folio 64

Date	Customer	Particulars	Led. Fol.	Ttl. of Invoice	Goods	Expenses						
						Pack'g Materls a/c			Car'ge on Sales a/c			
19..				£	s.	d.	£	s.	d.	£	s.	d.
Mar. 3	H. Hyde & Co.	Leather goods		36	10	—	35	—	—	1	—	—
„ 15	H. Hyde & Co.	Leather goods		66	12	6	65	—	—	15	—	—
„ 31	Total sundries for March posted to Ledger a/cs concerned		£	103	2	6	100	—	—	1	15	—
							L.			L.		

PURCHASES DAY BOOK

Date	Customer	Particulars	Led. Fol.	Ttl. of Invoice	Goods	Expenses a/cs									
						Pack'g Materls a/c			Car'ge on Sales a/c			Etc.			
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
19.. Mar. 1	T. Oaks	Packing cases		10	—	—				10	—	—			
" 6	J. Miles	Carriage on sales		2	10	—					2	10	—		
" 31	J. Miles	do.		1	7	6					1	7	6		
" 31	Total sundries for Mar. posted to Ledger a/cs concerned		£	13	17	6				10	—	—	3	17	6

SALES RETURNS BOOK

Folio 67

Date	Customer	Particulars	Led. Fol.	Ttl. of allowance, etc.		Goods		Expenses					
								Ret'ble cases and pack'g materls a/c			Other classes of returns		
				£	s.	d.	£	s.	d.	£	s.	d.	
19.. Mar. 17	H. Hyde & Co.	Allow'ce (cases)			15	—		—	—		15	—	—
„ 31	Total of sundries posted to Ledger	s for March, r a/cs concerned			15	—		—	—		15	—	—

J. Jones's Books (contd.): Ledger a/cs.

Dr.				H. HYDE & CO. A/c				Cr.			
		S.D.B.	£	s.	d.			S.R.B.	£	s.	d.
19.. Mar. 3	To Goods .	64	36	10	—	19.. Mar. 17	By Returns (cases)	67		15	—
„ 15	„ Goods .	S.D.B. 64	66	12	6						

Dr.		CREDIT SALES A/c										Cr.	
								19.. Mar. 31	By Total of sales for March, from S.D. Bk.	S.D.B. 64	£	s.	d.
											100	-	-

Dr.			PACKING MATERIALS AND CASES A/c									Cr.		
19..			£	s.	d.	19..						£	s.	d.
Mar. 31	To Total purchases of pcking. materials for mth.	P.D. Bk.	10	-	-	Mar. 31	By Total of sundries charged to a/cs of customers from S.D. Bk.	S.D. Bk. 64				1	15	-
" 31	" Total of retns. for March	S.R. Bk 67		15	-									

Dr.		CARRIAGE ON SALES A/c										Cr.	
19..			£	s.	d.	19..			£	s.	d.		
Mar. 31	To Total of carr'ge on sales (Mar. record) . .	P.D. Bk.	3	17	6	Mar. 31	By Total carriage charged to customers from S.D. Bk. .	S.D. Bk. 64	1	7	6		
						" 31	" Allow'ce (sur-charge) .	P.R. Bk.		2	6		

Dr.		J. MILES & CO. A/c										Cr.		
			£	s.	d.					£	s.	d.		
19..		P.R.				19..		P.D.						
Mar. 31	To Allowance	Bk.		2	6	Mar. 6	By Carriage (Feb.)	Bk.	2	10		-		
						" 31	" Carriage (Mar.)	P.D.						
								Bk.	1	7		6		

Dr.		T. OAKS A/c										Cr.		
							19.. Mar. 1	By Packing Mat- erials & Cases a/c	P.D. Bk.	£	s.	d.		
										10	-	-		

NOTE : *Carriage on Sales a/c, above.* The item of £1 7s. 6d. is placed on the credit side because it is part of a *sales* invoice and represents a service *sold* by J. Jones & Co. along with the goods. Although J. Jones will settle the account with the carrier the expense is passed on to H. Hyde, as shown in the Sales Day Book and his account, instead of being borne by J. Jones's business.

(b) Transactions relating to H. Hyde, in Hyde's books.

PURCHASES DAY BOOK

Date	Supplier	Particulars	Led. Fol.	Ttl. of Invoice	Goods	Expenses, etc.						
						Ret'ble Pcking. cases a/c			Carr'ge			
19..				£	s.	d.	£	s.	d.	£	s.	d.
Mar. 3	J. Jones	Leather goods		36	10	-	36	10	-			
" 15	J. Jones	Leather goods, etc.		66	12	6	65	17	6	15	-	
" 31	Total of sundries posted to res	ries for March pective a/cs		£ 103	2	6	102	7	6	15	-	

PURCHASES RETURNS BOOK

Date	Supplier	Particulars	Led. Fol.	Ttl. of Cr. notes	Goods	Expenses, etc.						
						Ret'ble Pack'g Cases a/c						
19..				£	s.	d.	£	s.	d.	£	s.	d.
Mar. 17	J. Jones	Returned case			15	-		15	-			
„ 31	Total of sundry allowances, etc., for March posted to respective accounts				15	-		15	-			

J. Hyde's Ledger

Dr.				J. JONES A/c				Cr.			
		P.R. Bk.	£	s.	d.			P.D. Bk.	£	s.	d.
19.. Mar. 17	To Returns (cases)		15	-		19.. Mar. 3	By Goods		36	10	-
						" 15	" Goods and Sundries	P.D. Bk.	66	12	6

Dr.				CREDIT PURCHASES A/c				Cr.			
		P.D. Bk.	£	s.	d.						
19.. Mar. 31	To Total of purchases for March posted from P.D. Bk.		102	7	6						

Dr.				PACKING MATERIALS AND CASES A/c				Cr.			
		P.D. Bk.	£	s.	d.			P.R. Bk.	£	s.	d.
19.. Mar. 31	To Total of cases, etc., received (March)			15	-	19.. Mar. 31	By Total of retrns. to suppliers			15	-

Worked Example. On 1st January, 19.., H. Watkins began business as a builder with capital of £1,000 in cash. He took over the following assets from J. Sandeman, who was retiring, at the under-mentioned valuations—

Equipment and tools, £300; stocks of building materials, £210; several partly-completed jobs, £80; debts owing by J. Brown (£31 10s.) and J. White (£16 5s.), in respect of work done for them.

Watkins's transactions in January were as follows—

- Jan. 2. Sent J. Sandeman cheque for the amount due to him.
- „ 4. Entered into agreement with Sandeman to rent his premises for £120 per annum and paid one month's rent by cheque in advance.
- „ 4. Bought equipment and tools from J. Handiman & Co., £35.
- „ 5. The A.B.C. Engineering Co. accepted an estimate of £150 for painting and decorating their premises.
- „ 5. Drew and cashed cheque for petty cash purposes, £45.
- „ 7. Completed one of partly completed jobs taken over on January 1st (for P. Wallsend), and sent him an invoice for amount due, £23 10s.
- „ 8. Received material *on approval* from J. Sandstone & Co.: *pro forma* invoice for £3 10s.
- „ 9. Paid wages from petty cash, £17 10s.
- „ 12. Bought building materials from J. Sandstone & Co., £40.
- „ 14. Bought sundry materials and paid for them by petty cash, £2 10s.
- „ 15. Bought materials from J. Sandstone & Co.—
- | | | | |
|----------------------------|------------|-----------|----------|
| Goods | £45 | — | — |
| Carriage | 1 | — | — |
| Packing cases (returnable) | 1 | 10 | — |
| | <u>£47</u> | <u>10</u> | <u>—</u> |
- „ 15. Received cheque in advance (progress payment) from A.B.C. Engineering Co., for part of work completed to date, £30.
- „ 16. Paid wages from petty cash, £17 10s.

- Jan. 18. J. Brown sent cheque for £31 10s.
 „ 21. Sent invoice to P. Wallsend & Co. for repairs done to his premises, £7 10s.
 „ 23. Sold materials at scrap price to J. Brown, £2 10s.
 „ 23. Received credit note from J. Sandstone & Co. in respect of returned cases, £1 10s.
 „ 23. Drew cheque for petty cash, £20.
 „ 23. Paid wages from petty cash, £17 10s.
 „ 25. Received notice that J. White had gone away and that the recovery of his debt was unlikely.
 „ 27. Informed J. Sandstone & Co. of decision to buy part of goods sent on approval, and received invoice for same, £2.
 „ Remainder returned.
 „ Paid carriage on same from petty cash, 3s. 6d.
 „ 28. Completed decorating job for A.B.C. Engineering Co. Sent invoice for £150 and Statement of a/c for amount *due*, £120.
 „ 30. Settled J. Sandstone's account for materials purchased on 12th January by cheque and was allowed 2% discount.
 „ 31. Received invoice from J. Wheeler for cost of hiring his lorry for various jobs, £4 10s.
 „ 31. The Materials Issued Day Book showed that the total cost of materials taken from Store for use on various building jobs during January, amounted to £139.
 „ 31. The analysis columns of the Wages Book showed that wages amounting to £37 10s. had been directly incurred on building jobs and repairs.
 „ 31. Value of stocks and jobs on hand at this date—
 (a) raw materials, £180;
 (b) partly completed jobs, as estimated by proprietor, £90.

MATERIALS ISSUED DAY BOOK

Folio 5

Year and month	Cost price of materials issued from Store to Job Dept.	Postings to Ledger a/cs concerned			
		Account debited	Led. Fol.	Account credited	Led. Fol.
19.. * Jan.	£139 - -	" Materials Charged to Jobs a/c "		" Materials issued to Jobs a/c "	
„ Feb.		£139 - -		£139 - -	

WORKED EXERCISE

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Dr.			H. WATKINS CAPITAL A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Net loss transferred from P. & L. a/c			9	12	6	Jan. 1	By Cash a/c	1,000	-	-
" 31	" Balance c/d		990	7	6						
			£ 1,000	-	-				£ 1,000	-	-
						Feb. 1	By Balance b/d		990	7	6

Dr.			CASH A/c						Cr.		
			Disc.	Cash					Disc.	Cash	
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Captl. a/c		1,000	-	-	Jan. 2	By J. Sandeman a/c		637	15	-
" 15	" A.B.C. Eng. Co. a/c					" 4	Rent a/c (Jan.)		10	-	-
" 18	" J. Brown a/c		30	-	-	" 5	" Petty Cash a/c		45	-	-
			31	10	-	" 23	" Petty Cash a/c		20	-	-
						" 30	" J. Sandstone a/c	16	39	4	-
						" 31	" Total of disc. (Cr.) posted to Disc. a/c				
						" 31	" Bal'ce c/d		309	11	-
			£ 1,061	10	-				£ 1,061	10	-
Feb. 1	To Bal'ce b/d		309	11	-						

Dr.			PETTY CASH A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 5	To Cash a/c		45	-	-	Jan. 9	By Wages a/c		17	10	-
" 23	" Cash a/c		20	-	-	" 14	" Cash Purchases a/c		2	10	-
						" 16	" Wages a/c		17	10	-
						" 23	" Wages a/c		17	10	-
						" 27	" Carriage a/c			3	6
						" 31	" Balance c/d		9	16	6
			£ 65	-	-				£ 65	-	-
Feb. 1	To Balance b/d		9	16	6						

Dr.			J. SANDEMAN A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 2	To Cash a/c		637	15	-	Jan. 1	By Sundry Assets a/cs—				
							(a) Equipment & Tools a/c		300	-	-
							(b) Stock of Materials a/c		210	-	-
							(c) Partly Completed Jobs a/c		80	-	-
							(d) Debtors—				
							J. Brown a/c £31 10s. od.				
							J. White a/c £16 5s. od.				
									47	15	-
			£ 637	15	-				£ 637	15	-

Dr.		EQUIPMENT & TOOLS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To J. Sandeman		300	-	-	Jan. 31	By Balance c/d	335	-	-
" 31	" Sundries for January	P.D. Bk.	35	-	-					
			£ 335	-	-			£ 335	-	-
Feb. 1	To Balance b/d		335	-	-					

Dr.		STOCK OF MATERIALS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan.	1 To J. Sandeman a/c		210	-	-	Jan.	31 By Transfer to Trad- ing a/c	210	-	-
Feb.	1 To Trading a/c		180	-	-					

Dr.		PARTLY COMPLETED JOBS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To J. Sandeman a/c		80	—	—	Jan. 31	By Transfer to Sundry Jobs a/c	80	—	—
Feb. 1	To Sundry Jobs a/c		90	—	—					

Dr.		J. BROWN A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To J. Sandeman					Jan. 18	By Cash a/c	31	10	-
		a/c	31	10	-	" 31	" Balance c/d	2	10	-
25	" Goods	S.D. Bk	2	10	-					
			£34	-	-			£34	-	-
Feb. 1	To Balance b/d		2	10	-					

Dr.		J. WHITE A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To J. Sandeman a/c		16	5	—	Jan. 25	By Bad Debts a/c	16	5	—
			<u>16</u>	<u>5</u>	<u>—</u>			<u>16</u>	<u>5</u>	<u>—</u>

Dr.		MATERIALS CHARGED TO JOBS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 31	To Total of materials for Jany.	Mat. Issued D. Bk. Fol. 5	139	-	-	Jan. 31	By Transfer to Sundry Jobs a/c	139	-	-

Dr.			P. WALLSEND A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.	
Jan. 7	To Job No. —	S.D. Bk.	23	10	—	Jan. 31	By Balance c/d .	31	—	—	
" 21	" Job No. (repairs)	S.D. Bk.	7	10	—						
			£31	—	—			£31	—	—	
Feb. 1	To Balance b/d .		31	—	—						

WORKED EXERCISE

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Dr.		A.B.C. ENGINEERING Co. A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 28	To Job No. —	S.D. Bk.	150	—	—	Jan. 15	By Cash a/c (progress p'ment)	30	—	—
						" 31	" Balance c/d .	120	—	—
			£	150	—			£	150	—
Feb. 1	To Balance b/d		120	—	—					

Dr.		J. HANDIMAN A/c										Cr.		
							19..					£	s.	d.
							Jan. 4	By Sundry Equipment	P.D. Bk.			35	-	-

Dr.		J. SANDSTONE & Co. A/c							Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 23	To Returns					Jan. 12	By Goods	P.D. Bk.	40		
	(cases)	P.R. Bk.	1	10			" 15	" Goods, etc.	P.D. Bk.	47	10
" 30	" Cash a/c		39	4		" 27	" Goods	P.D. Bk.	2		
" 30	" Discount			16							
" 31	" Balance c/d		48								
			<u>£89</u>	<u>10</u>	<u></u>				<u>£89</u>	<u>10</u>	<u></u>
						Feb. 1	By Balance b/d		48		

Dr.		J. WHEELER A/c										Cr.		
							19..					£	s.	d.
							Jan. 31	By Lorry hire	P.D. Bk.			4	10	-

Dr.		CREDIT SALES A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c		2	10	—	Jan. 31	By Total of Cr. Sales for Jan. posted from Sales Day Bk.	S.D. Bk.	2	10	—
			£2	10	—				£2	10	—

Dr.		MATERIALS ISSUED TO JOBS A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c		139	—	—	Jan. 31	By Total of materials for January	M.I. Day Bk Fol. 5	139	—	—
			£ 139	—	—				£ 139	—	—

Dr.			COMPLETED JOBS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.	
Jan. 31	To Transfer to Sundry Jobs a/c		181	—	—	Jan. 31	By Total of Compltd. Jobs for January posted from Sales Day Book	S.D. Bk.	181	—	
			£ 181	—	—			£ 181	—	—	

Dr.		CREDIT PURCHASES A/c (GOODS)						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 31	To Total of Cr. purchases for Jany. posted from Purchases Day Bk. .	P.D. Bk.	88	-	-	Jan. 31	By Transfer to Trading a/c .	88	-	-
			<u>£88</u>	-	-			<u>£88</u>	-	-

Dr.		PACKING CASES A/c						Cr.			
19..			£	s.	d.	19..		£	s.	d.	
Jan. 31	To Total of sundries received during Jan. posted from Purch. Day Bk. .	P.D. Bk.	1	10	-	Jan. 31	By Total of sundries ret'd. in January posted from Purchases Ret. Bk. .	P.R. Bk.	1	10	-
			£1	10	-			£1	10	-	

Dr.		LORRY HIRE A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 31	To Total of sundries for Jan., posted from Purchases Day Book .	P.D. Bk.	4	10	-	Jan. 31	By Transfer to Sundry Jobs a/c .	4	10	-
			£4	10	-			£4	10	-

Dr.		CASH PURCHASES A/c							Cr.				
		£			s.			d.					
19..											19..		
Jan. 14	To Petty Cash a/c	2	10	-	Jan. 31	By Transfer to Trading a/c	2	10	-				

Dr.		RENT A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 4	To Cash a/c .		10	-	-	Jan. 31	By Transfer to P. & L. a/c .	10	-	-

Dr.		DISCOUNT A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to P. & L. a/c . . .			16	-	Jan. 31	By Total of discount (Cr.) for January posted from Cash a/c	C.B.		16	-
				16	-					16	-
			<u> </u>	<u> </u>	<u> </u>				<u> </u>	<u> </u>	<u> </u>

Dr.		WAGES A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 9	To Petty Cash a/c .		17	10	-	Jan. 31	By Transfer to Trading a/c .	15	-	-
" 16	" Petty Cash a/c .		17	10	-	" 31	" Transfer to Sundry Jobs a/c .	37	10	-
" 23	" Petty Cash a/c .		17	10	-			<u>£52</u>	10	-
			<u>£52</u>	<u>10</u>	<u>-</u>			<u>£52</u>	<u>10</u>	<u>-</u>

<i>Dr.</i>		BAD DEBTS A/c					<i>Cr.</i>		
19..		£	s.	d.	19..		£	s.	d.
Jan. 25	To J. White a/c	16	5	—	Jan. 31	To Transfer to P. & L. a/c	16	5	—
		<u>£16</u>	<u>5</u>	<u>—</u>			<u>£16</u>	<u>5</u>	<u>—</u>

<i>Dr.</i>		CARRIAGE A/c					<i>Cr.</i>		
19..		£	s.	d.	19..		£	s.	d.
Jan. 27	To Petty Cash a/c		3	6	Jan. 31	To Transfer to Trading a/c . .		3	6
			3	6				3	6

TRIAL BALANCE AS ON 31ST JANUARY, 19..

TITLE OF ACCOUNT	<i>Debit balances</i>			<i>Credit balances</i>		
	£	s.	d.	£	s.	d.
H. Watkins Capital a/c				1,000	—	—
Cash a/c	309	11	—			
Petty Cash a/c	9	16	6			
Equipment and Tools a/c	335	—	—			
Stock of Materials a/c (1st Jan.)	210	—	—			
Partly Completed Jobs a/c (1st Jan.)	80	—	—			
Debtors : J. Brown a/c	2	10	—			
P. Wallsend a/c	31	—	—			
A.B.C. Engineering Co. a/c	120	—	—			
Creditors : J. Handiman a/c				35	—	—
J. Sandstone & Co. a/c				48	—	—
J. Wheeler a/c				4	10	—
Credit Sales a/c				2	10	—
Materials Charged to Jobs a/c	139	—	—			
Completed Jobs a/c				181	—	—
Materials Issued to Jobs a/c				139	—	—
Credit Purchases a/c	88	—	—			
Lorry Hire a/c	4	10	—			
Cash Purchases a/c	2	10	—			
Rent a/c	10	—	—			
Discount a/c					16	—
Wages a/c	52	10	—			
Bad Debts a/c	16	5	—			
Carriage a/c		3	6			
	£ 1,410	16	—	1,410	16	—

Value of stocks on hand on 31st January—

- Raw materials £180.
- Partly completed jobs £90.

Dr. **SUNDRY JOBS A/c FOR MONTH ENDED 31ST JANUARY, 19..** *Cr.*

	£	s.	d.		£	s.	d.
To Partly Completed Jobs a/c (balance on 1st Jan.)	80	—	—	By Completed Jobs a/c	181	—	—
„ Materials Charged to Jobs a/c	139	—	—	„ Partly Completed Jobs a/c (on hand 31st Jan.)	90	—	—
„ Wages a/c (labour employed on jobs)	37	10	—				
„ Lorry Hire a/c	4	10	—				
„ Gross profit on sundry jobs, transferred to P. & L. a/c	10	—	—				
	£ 271	—	—		£ 271	—	—

Dr. **TRADING A/c FOR MONTH ENDED 31ST JAN., 19..** *Cr.*

	£	s.	d.		£	s.	d.
To Stock of Materials a/c (as on 1st Jan.)	210	—	—	By Credit Sales a/c	2	10	—
„ Credit Purchases a/c	88	—	—	„ Materials Issued to Jobs Jobs a/c	139	—	—
„ Cash Purchases a/c	2	10	—	„ Stock of Materials a/c (as on 31st Jan.)	180	—	—
„ Wages a/c (trading dept. only)	15	—	—				
„ Carriage a/c		3	6				
„ Gross profit on trading, trans- ferred to P. & L. a/c	5	16	6				
	£ 321	10	—		£ 321	10	—

Dr. **P. & L. A/c FOR MONTH ENDED 31ST JAN., 19..** *Cr.*

	£	s.	d.		£	s.	d.
To Rent a/c	10	—	—	By Gross profit on Sundry Jobs a/c	10	—	—
„ Bad Debts a/c	16	5	—	„ „ „ Trading a/c	5	16	6
				„ Discount a/c		16	—
				„ Net loss transferred to Capital a/c	9	12	6
	£ 26	5	—		£ 26	5	—

BALANCE SHEET AS ON 31ST JANUARY, 19..

LIABILITIES				ASSETS			
	£	s.	d.		£	s.	d.
H. Watkins's Capital (as on 1st Jan.)	1,000	—	—	Equipment & Tools			335
Less Net loss	9	12	6	Stocks of materials			180
				Partly compltd. Jobs			90
Sundry Creditors (total of)				Sundry Debtors (total of)			153
				Cash at Bank	309	11	—
				Cash at Office	9	16	6
							319
	£ 1,077	17	6		£ 1,077	17	6

EXERCISES

No. 1

On the 1st December the following was the position of L. Greenwood, wholesale grocer—

Assets : Premises, £800 ; Delivery van, £200 ; Stock of goods, £600 ;
Cash at bank, £790 ; Cash in office, £30. *Debtors* : P.
Larvin & Son, £80 ; A. Ambler & Co., £120.

Liabilities : G. Gordon, £95 ; M. Hargreaves, £127.

Greenwood's transactions during December were as follows—

- Dec. 2. Sent G. Gordon a cheque for amount due to him, deducting
2½% for cash discount.
- „ 4. Bought additional delivery van and paid by cheque, £150.
- „ 5. Entered into agreement with J. Burgess to rent his prem-
ises for storage purposes, at a rental of £180 per annum
and paid by cheque one month's rent in advance.
- „ 6. Bought from G. Frean & Co. goods, £130.
- „ 7. Sold goods for cash, £15, and paid into bank on same day.
- „ 12. Bought packing cases from the Borough Carton Co., £80.
- „ 15. Received cheque from P. Larvin & Son, £78, and allowed
him £2 cash discount.
- „ 18. Withdrew from bank for office, £40.
- „ 20. Paid £5 from office cash for repairs to delivery van.
- „ 22. Bought from G. Gordon, goods £150.
- „ 23. Paid the following expenses from office cash—
Stationery, £2 ; Office machinery repairs, £3 10s.
- „ 27. Purchased weighing machine from P. Steen & Co., £40.
- „ 27. Paid £3 from office cash for petrol and oil for delivery van.
- „ 29. Sold to W. Greenfield—

Goods	£175
Packing cases (non-returnable)	3
	£178
- „ 30. Paid from office cash, wages £55.
- „ 31. Sent to M. Hargreaves cheque for £127.
- „ 31. Sold goods to H. James & Co.—

Goods	£125
Carriage	2
Packing cases (non-returnable)	2
- „ 31. Value of stock on hand at this date—

(a) Goods	£688
(b) Packing cases	70
- „ 31. Provide for one month's depreciation on delivery vans
at rate of 20% per annum.

Answer : Gross Profit, £123 ; Net Profit, £31 os. 10d. ; Balance Sheet
totals, £2,829 os. 10d.

No. 2

On the 1st January, the financial position of L. Gilmore, a wholesale draper, was as follows—

Assets : Warehouse premises, £850 ; Furniture and Fittings, £400 ; Stock of goods, £493 10s. ; Cash at bank, £620 15s. ; Cash in hand, £40. *Debtors* : A. Hore & Co., £60 ; M. Jones, £120 10s.

Liabilities : W. Watkins £215 ; New Textile Manufacturing Co., £300.

The transactions for January were as follows—

- Jan. 2. Sold on credit to A. Hore & Co., 20 pairs youth's serge knickers at 7s. 6d. pair ; 2 doz. shirts at 12s. 6d. each, and 10 pairs cotton sheets at 21s. per pair. The whole invoice being subject to 10% trade discount.
- „ 4. Sold for cash, 5 cotton blouses at 10s. each.
- „ 7. Paid in cash, wages £18 10s. 6d ; carriage on sales, 15s.
- „ 10. Drew cheque for office purposes, £10.
- „ 15. Bought on credit from New Textile Manufacturing Co. : 50 linen bedspreads at 15s. each ; 12 pairs of cotton sheets at 15s. per pair ; 20 doz. turkish towels at 2s. each ; 24 pairs youths' knickers at 5s. per pair. All subject to 15% trade discount.
- „ 18. Sold for cash, goods £63, and paid cash into bank.
- „ 20. Received cheque from A. Hore & Co., £60.
- „ 23. Settled by cheque W. Watkins's account, being allowed £3 for cash discount.
- „ 27. Sent cheque to New Textile Manufacturing Co., £300.
- „ 29. Sold goods for cash, £50 10s., and paid cash into bank.
- „ 30. Purchased by cheque, office furniture, £20.
- „ 30. Bought assortment of goods from the City Clothing Co., which were invoiced as follows—

Goods	£113 10	-
Carriage	2 10	-
Packing materials	15	-
	<hr/>	
	£116 15	-

- „ 31. Paid by cheque—
- | | | |
|----------------------------------|--------|---|
| Staff salaries | £49 10 | - |
| Telephone account | 6 10 | - |
| Fire insurance premium | 9 15 | - |
- „ 31. Cash sales of £14 10s. ; cash paid into bank.
- „ 31. Paid all office cash into bank.
- Provide for one month's depreciation on furniture and fittings £400, at rate of 10% per annum.
- Stock on hand at 31st January was valued at £605 11s.

Answer : Gross profit, £90 9s. 6d. ; Net profit, £5 2s. 4d. ; Balance Sheet totals, £2,256 12s. 10d.

No. 3

F. Rawson is in business as a motor dealer and repairer. His assets and liabilities on the 1st July were as follows—

Garage and workshop premises, £800; machinery and tools, £497; Stock, £2,100; value of uncompleted jobs, £120; office furniture, £60; Debtors: W. Jones, £40; L. Green, £62 5s.; Cash at bank, £540; Office cash, £49; Creditors: Morris, Ltd., £390; Autocar, Ltd., £150.

Rawson's transactions for the month of July were as follows—

- July 2. Paid £15 by cheque for sundry tools.
 „ 4. Purchased on credit from Autocar, Ltd., 3 saloon cars at £150 each, less 20% trade discount.
 „ 5. Sold on credit to P. Larvin, 2 motor cars for £170 each; spare parts, £8 10s.; and 3 lamps for 30s. each. The whole invoice was subject to 5% cash discount if paid within 14 days.
 „ 10. Sent quotation for car repairs and overhaul for £37 10s. to G. Browning.
 „ 12. Work carried out for L. Harwood completed this day and invoice sent; value of job, £42 10s.
 „ 15. G. Browning accepted quotation for car repairs and overhaul.
 „ 17. Paid in cash, wages, £37 15s., and spare parts £4 10s.
 „ 20. Received cheque from W. Jones in settlement of his account and allowed him 2½% for cash discount.
 „ 23. Sent cheque to Autocar, Ltd., in settlement of account outstanding on the 1st July.
 „ 27. L. Green settled his account by cheque.
 „ 29. Sold for cash one motor car, £180; cheque received and paid into bank.
 „ 30. Sold spare parts for cash, £6 10s., and paid cash into bank.
 „ 30. Repair jobs completed for the following—W. Wilkinson, £27; K. Johnson, £32 10s.; A. Dougan £14.
 „ 31. Purchased from New Era Tool Co., new lathe, £140.
 „ 31. Paid by cheque, £250 to Autocar, Ltd., on account of purchases made on 4th July.
 „ 31. Withdrew £40 from bank for office cash.
 „ 31. Paid from office cash—Wages, £18 10s.; Trade expenses, £4 5s.
 „ 31. Small lathe sold for cash, £15. This lathe had a book value of £25.
 „ 31. Spare parts costing £23 were used in the repair and overhaul of cars for customers.
 „ 31. Of the wages paid during the month, £45 was spent on car repair work for customers.

The stock on hand at 31st July was valued as follows—

Stock (cars and spare parts)	£2,070	-	-
Uncompleted jobs	140	-	-

Answer: Gross profit on completed repair jobs, £68; Gross profit on Trading, £168; Net profit, £209 10s.; Balance Sheet totals, £4,577 15s.

No. 4

W. Nicklin was in business as a builder and decorator. His business assets and liabilities as at the 1st February, were as follows—

Workshop premises, £300; Sundry plant and equipment, £250; Stock of paint and builders' materials, £400. Debtors: T. Parsons, £40; L. Jones, £25; work in progress, £195; cash at bank, £360; petty cash, £25. Creditors: Builders' Supply Co., £205; F. Love & Sons, £65.

The following transactions took place during the month of February:

- Feb. 2. Withdrew from bank, £30 for petty cash.
 „ 3. Signed agreement to hire motor wagon at 5s. per hour, hiring charge to be paid at end of each month.
 „ 4. Completed certain work on hand and rendered account to A. Holdrich, £60.
 „ 5. Sold materials to T. Parsons, £37 10s.
 „ 9. Paid by cheque, £65, in settlement of F. Love & Sons' account.
 „ 12. Completed decorating work for G. Taplin, and rendered account, £95.
 „ 16. Purchased materials for which payment made by cheque, £30.
 „ 20. Paid wages, £80; cheque drawn on bank for this sum.
 „ 25. Paid from petty cash—
 Sundry materials £23 10 —
 Stationery 2 — —
 Postages 15 —
 „ 27. Received cheque for sundry repairs and paid it into bank, £6 10s.
 „ 28. Received notice that L. Jones had gone away and that recovery of his debt was unlikely.
 „ 28. Drew cheque for lorry hire for month. The vehicle had worked for 75 hours in connection with various decorating jobs.
 „ 28. Ascertained that the cost of materials taken from stock for decorating and repair jobs amounted to £130 for the month.
 „ 28. Paid into bank amount of petty cash held in excess of £20.
 „ 28. Of the wages paid during the month, £73 10s. was spent on decorating and repair jobs.
 Value of (a) Stock of paint and builder's materials £305 4 —
 (b) Uncompleted jobs (work in progress) 330 10 —

Answer: Gross profit on completed jobs, £74 15s.; Gross profit on Trading, £19 4s.; Net profit, £59 14s.; Balance Sheet totals, £1,589 14s.

CHAPTER VII

CLASSIFICATION of Expenses—Petty Cash a/c—Postages Book—Wages Book and Accounts—Wages of Direct and Indirect Workers—Time Cards and Weekly Wages Book—Insurance and Deductions for Income Tax (P.A.Y.E.)—Illustration of Wages Book and Postings to Accounts—Employees' Contributions to Sports, Holidays, and Hospital Funds, etc., Advances—Labour Cost—Revenue and Capital Expenses—Labour and Materials Used for Improvements and Additions to Fixed Assets—Exercises.

Classification of Expenses. Just as the Purchases Day Book is used to classify and record goods and services bought on credit, so the Petty Cash Book can be used to do the same thing for cash purchases of non-trading goods (such as stationery, etc.) and services.

A simple form of Petty Cash Account was illustrated in Chapter IV, so that it only remains to show how it is used for classification purposes. The goods and services concerned will usually be those for which credit would not be asked or expected. This applies to non-trading goods like stationery, etc., postage and insurance stamps, and services like carriage on cash sales, travelling expenses, and any small items which cannot be suitably classified except as "sundry expenses." It will be easy to classify items which are purchased regularly, and extension columns can be added for such classes of expense in the same way as is done for other Day Books. These extension or analysis columns will be totalled monthly or four-weekly, and each total will be posted to the debit side of the appropriate expense account in the Ledger.

Petty Cash a/c. The Petty Cash a/c is a *Ledger a/c* because it records receipts and expenditure of cash and, at the same time, a *Day Book*, because it is used to classify expenditure of cash according to the type of service, etc., obtained for it.

As an account, the Petty Cash Book will be balanced monthly so as to show the total amount spent on all the various groups of services and goods. For ready reference, each class of service, etc., can be given a class *number* so as to show whether the money spent on it is incurred for manufacturing or sales purposes. This number can also

be used to identify the corresponding expense account in the Ledger.

When the Petty Cash Book is balanced at the end of each month, the entry showing the total amount spent (e.g. 31st March, £11 15s. 8d.) will act as the single *credit* entry for the *debits* made in the various expense accounts.

It is an advantage to adopt the *imprest* system for the Petty Cash Book. When this is used, the petty cashier receives a sum from the cashier at the end of each month to make up the amount that has been disbursed during the month. This facilitates checks of monthly expenditure. The petty cashier should see that he gets a receipt or *voucher* when he parts with cash for goods or other purposes. It is advisable to use books of numbered receipt forms, with a duplicate copy for each form, so that the books are always available for use and inspection. Receipt numbers should be entered in the folio column of the Petty Cash Book against the appropriate entries, so that the latter may be easily compared with the vouchers.

At this point it will be well for the student to remember that the Petty Cash Book is used to record disbursements only. Only advances from the cashier are debited to the Petty Cash a/c. Ordinary cash receipts should be paid into the bank and passed through the main cash book.

The following example illustrates the use of the Petty Cash Book for the classification of expenses, etc.—

On 1st March the petty cash balance stood at £1 10s. On that date the petty cashier received a cheque for £18 10s. from the cashier. During March, petty cash disbursements were made in respect of the following items—

		£	s.	d.
Mar.	3. Postage Stamps	10	—	—
„	4. Carriage on samples to W. Brown		2	9
„	5. Cleaning Materials		3	6
„	7. Stationery		7	6
„	8. Refunded Staff Travelling Expenses		2	1
„	12. Window Cleaning (Sales Dept.)		5	6
„	17. Carriage on Goods to S. Wilson		2	6
„	20. Donation to local Charity		5	0
„	22. Repairs to Window		3	6
„	27. Sundry items of Stationery		3	4
„	31. Received from cashier cheque for £11 15s. 8d. to make up the balance to £20.			

LEDGER A/cs

Dr.		TRAVELLING EXPENSES A/c (S.41)						Folio 33			Cr.
19.. Mar. 31	To Total for March posted from . . .	P.C.B. 19	£	s.	d.						
				2	1						

Dr.		STATIONERY A/c (S.42)						Folio 34			Cr.
19.. Mar. 31	To Total for Mar. posted from . . .	P.C.B. 19	£	s.	d.						
				10	10						

Dr.		POSTAGE STAMPS A/c (S. 43)						Folio 35			Cr.
19.. Mar. 31	To Total purchases for Mar. posted from . . .	P.C.B. 19	£	s.	d.						
			10	-	-						

and so on for the remaining accounts.

There are one or two classes of service on which expenditure is regularly incurred, and in such volume that the transactions cannot be included in an ordinary Petty Cash Book. In such cases it is necessary to use special subsidiary Day Books, where they can be listed and posted to the respective expense accounts in weekly or monthly totals.

The Postages Book and Wages Book are examples of such independent treatment. The Postages Book is used to record receipts *and* expenditure of postage stamps and so it is a *Ledger a/c* (i.e. a subsidiary Petty Cash a/c) *as well as a Day Book*.

The Wages Book, on the other hand, is nothing more than a Day Book, as it classifies and records items of *expenditure only* (e.g. wages, workers' and employer's insurance contributions, deductions for workers' income tax, etc.). The weekly totals of each of the classified items of expenditure are posted to Ledger accounts concerned so as to provide the necessary double entry record in the Ledger.

For example, the total of the "wages paid" column will be used to credit the Cash a/c and debit the Wages a/c. A more detailed explanation of these Ledger postings will be given when the Wages Book is dealt with later on in this chapter.

Postages Book. The following exercise illustrates how expenditure on stamps is first of all recorded in the Petty Cash Book and Postage Stamps a/c. When stamps are handed to the Post Clerk, the Postage Stamps a/c is linked with the Postages Book and the latter is then used to record daily expenditure on stamps—

- Jan. 1. The petty cashier bought postage stamps to the value of £10.
 3. The post clerk received stamps from him value £5.
 Postages during January amounted to £4 10s.
 The Postage Book was balanced on 31st January and the clerk received a further advance of stamps amounting to £3 10s.

PETTY CASH BOOK

Dr.				(Showing one analysis column only)				Folio 24 Cr.							
Date		Particulars		Led. Fol.		Date		Particulars		Vou- cher No.		Total		Pstge. Stmps a/c	
19..				£ s. d.		19..				£ s. d.		£ s. d.			
Jan. 1		To Balance b/d (say)		20 - -		Jan. 1		By Postage stamps etc., etc.		10 - -		10 - -			
						" 31		" Total of Petty Cash disbursements for Jan.				£ 10 - -			
				£ 20 - -											

POSTAGES BOOK

Dr.						Folio 70			Cr.		
19..	(Stamps recd.)		£	s.	d.	19..	(Stamps used)		£	s.	d.
Jan. 1	To Postage Stamps a/c	L.101	5	-	-	Jan. 1	By J. Jones				2½
						" 1	" Cobley & Co.				1
						"	" T. Atkins				3
						" 3	" Circulars (20 at 1d.)			1	8
						" 4	" A. Wilkie (Reg. ltr.)				6
						" 7	" H. Jackson				2½
						" 7	" T. Thompson				3
						" 9	" J. White				7
						" 9	" B. Black				2½
							and so on throughout January				
						" 31	" Total of postages for Jan., transferred to Stamps Used a/c	L.43	4	10	-
						" 31	" Balance c/d		10	10	-
			£	5	-				£	5	-
Jan. 31	To Balance b/d			10	-	Feb. 1	By H. Jones				2½
Feb. 1	" Postage Stamps a/c	L.101	3	10	-	" 2	" W. Eagle				3
							and so on for Feb.				

GENERAL LEDGER A/cs

Dr.		POSTAGE STAMPS A/c							Folio 101		Cr.
19..			£	s.	d.	19..		Post B.	£	s.	d.
Jan. 31	To Total stamps purchased in Jan.	P.C.B. 24	10	-	-	Jan. 3	By Postages Book	70	5	-	-
						Feb. 1	„ Postages Book	„	3	10	-

Dr.		STAMPS USED A/c						Folio 43		Cr.
19..			£	s.	d.					
Jan. 31	To Postages Book (Stamps used in January)	Post-ages Bk. 70	4	10	-					

At the end of the year the Stamps Used a/c will be closed by transferring it to the P. & L. a/c (Dr.).

The balance in the Postages Book and that in the Postage Stamps a/c will be reckoned as part of the "cash in hand," and added to the Petty Cash balance for inclusion in the Balance Sheet.

If, when the Postages Book is audited, it is found that the balance of *stamps* is different from that shown by the Postages Book, the Postages Book balance would be adjusted by the auditor or accountant to agree with the balance of stamps. If there were a surplus of stamps, say 10d., the adjustment would be made by debiting the Postages Book and crediting the Stamps Used a/c.

The Postages Book is debited because this would add 10d. to the balance shown by that book, and the Stamps Used a/c credited, because it would reduce the balance of stamps *used* by 10d.—

Dr.		POSTAGES BOOK						Folio 101		Cr.	
19.			£	s.	d.	19..			£	s.	d.
Dec. 31	To Total of stamps recd. for year (from Postage Stamps a/c) (say) .		15	-	-	Dec. 31	By Total of post'gs for year trans- ferred to Stamps Used a/c .	L.44	13	7	6
" 31	" Stamps Used a/c (surplus of stamps) .				10	" 31	" Balance (of stamps) c/d .		1	13	4
			£	15	- 10				£	15	- 10
Dec. 31	To Balance b/d .		1	13	4						

GENERAL LEDGER A/cs											
Dr.		STAMPS USED A/c						Folio 44		Cr.	
19..			£	s.	d.	19..			£	s.	d.
Dec. 31	To Transfer from Postages Book (stamps used for year)	Post-ages Book 101	13	7	6	Dec. 31	By Postages Book (surplus of stamps)				10
						" 31	" Balance transferred to P. & L. a/c		13	6	8
			£ 13	7	6				£ 13	7	6
<hr/>											
Dr.		PROFIT & LOSS A/c FOR THE YEAR ENDED 31ST DECEMBER, 19..								Cr.	
			£	s.	d.						
	To Stamps Used a/c		13	6	8						

Wages Book and Accounts. Workers' earnings and the payment of wages can be most conveniently recorded in the Ledger *through the medium of* a Day Book, as they form a distinctive class of expense and because workers' earnings are subject to deductions which can also be easily classified in a Wages Book before they are posted in *summary* form to the respective Ledger a/cs.

Wages of Direct and Indirect Workers. When we say that "wages" form a distinctive class of expense, it should be remembered that in manufacturing and similar businesses, wages, as a whole, will be sub-divided into sub-classes, according to the class of worker the wages represent—

(a) *Wages of Factory or Works Staff.* These may be divided into—

- (i) Wages of those engaged in making goods for sale (i.e. wages of direct workers) ;
- (ii) wages of other manual workers in stores, power plant, and factory) ;
- (iii) wages of factory and works clerical workers (in stores and factory).

Wages of
indirect workers

Nos. (i) and (ii) are sometimes referred to as manufacturing wages, and Nos. (i), (ii), and (iii) together as production wages.

(b) *Wages of Sales and Distribution Staff (indirect workers).* These may be divided into—

- (iv) wages of manual workers (warehouse, delivery service) ;
- (v) clerical staffs in sales department, etc. .

Hence, in practice, the Wages Book for concerns of this type would be divided into sections in order to record the various classes of labour-service remunerated under (i), (ii), (iii), (iv), and (v) above.

Workers are generally paid according to the *length of time* worked, and are known as time-workers. As such workers are paid on a time-basis, they get a specified rate per hour, according to the *type* of work they do. Workers may also be paid according to the *amount of work* done, when they are referred to as piece workers (i.e. paid by the piece). Alternatively, a wage system may be based on a combination of time worked and the amount of work done. This is usually known as a premium bonus wage.

Time Cards and Weekly Wages Book. In the following illustration of wages records and accounts, we have assumed that the workers are paid on a time basis. For this purpose, the employer will have to keep the following daily and weekly records in order to provide the summary details for his Ledger a/cs and to satisfy the requirements of the Inland Revenue Authorities.

- (1) *A time card for each employee for each week.* A typical form of time record is given in the illustration that follows. As an alternative, employees may be required to complete time sheets, which are hand-written records of time worked. Where practicable, a time-card used in conjunction with a time-recording clock is to be preferred, as it affords more accurate records.
- (2) *A Weekly Wages Book (or pay sheet).* The Wages Book should show, in a summary and tabulated form, the gross earnings of each worker, the deductions from his earnings for income tax, and for National Health and Unemployment Insurance, and the net wages payable to him. It is also customary to record the amount of the *employer's* contributions for National Health and Unemployment Insurances for each employee in the Wages Book; and the weekly totals of these items in the Wages Book will provide the figures for entry in the financial accounts.

Where deductions are made from an employee's earnings for contributions to a superannuation or pension fund, or for any other purpose (e.g. a sports fund,

local hospitals, etc.), additional columns will be provided in the Wages Book to record such deductions.

Insurance and Deductions for Income Tax (P.A.Y.E.). In the following illustration we have assumed that the only deductions to be made are those in respect of income tax and National Health and Unemployment insurances.

It will also be necessary to keep a card upon which to record *each worker's gross earnings and deductions therefrom for income tax*. Under the pay-as-you-earn income tax scheme, the Inland Revenue authorities provide the employer with a card for *each* employee, on which the employer records this essential information. The Inland Revenue authorities require the employer to furnish them with this information at the end of each income tax year, which runs from the 6th April in one year to the 5th April in the following year.

Before proceeding with the example of wages records and accounts, mention ought to be made of the method by which the employer has to calculate the necessary deductions from the employee's earnings for income tax, under the pay-as-you-earn scheme. Under this scheme the Inland Revenue authorities furnish the employer with a card for each of his employees, as mentioned above. This card indicates the income tax allowances *code number* for the particular employee.

The Inland Revenue authorities also furnish the employer with income tax deduction tables for calculating the tax on cumulative wages throughout the year. The tables consist of separate tables for each week of the year and show, in columnar form, the amount of tax to be deducted from a particular employee's wages, appropriate to the code number allotted to him. The tables are so arranged that they show, week by week, throughout the year, the cumulative or total amount of tax to be deducted in respect of the employee's cumulative gross earnings up to the end of the appropriate pay week. The amount of deduction from the employee's earnings *in any particular week*, for income tax, is always the *total* amount of tax indicated by the tax tables appropriate to that week, *less* the amount of tax which has already been deducted up to the end of the previous week.

When the employer has examined and approved a worker's

time record card, and has calculated his gross earnings for the week in question—as illustrated on the time card in the following example—the gross earnings are then entered on his tax deduction card. By reference to the income tax deduction tables, the amount of tax deduction to be made can be calculated, having regard to his particular code number. This information is then entered on his tax deduction card, as shown, and the amount of tax to be deducted in the particular week, as shown in column 6 of the card, is then transferred to the income tax deduction column of *the Wages Book* for the week in question, against the particular worker's name.

In order that students may understand the main features of the scheme, mention must be made of the fact that the *employer* is required to pay to his local collector of taxes, within 14 days from the end of the particular tax month, the amount of the deductions which he has made in accordance with the tax tables (less any refunds of tax made to employees). The sum to be paid to the collector is the amount of the credit balance of the Inland Revenue Commissioners a/c, which is illustrated in the following example—.

For the purpose of illustrating the time and wages records and accounts relating to wages transactions, we will assume that a business man has four employees and that the time worked by them and their gross earnings in respect of four weeks are as follows—

						Gross earning		
						£	s.	d.
<i>Wages week ending 12th April</i>								
James Robinson	.	.	.	.	44 hours worked @ 2/-	4	8	-
John Sawyer	.	.	.	.	42 " " @ 1/10	3	17	-
William Smith	.	.	.	.	40 " " @ 2/-	4	-	-
Fredk. Green	.	.	.	.	44 " " @ 1/8	3	13	4
<i>Wages week ending 19th April</i>								
James Robinson	.	.	.	.	43 hours worked @ 2/-	4	6	-
John Sawyer	.	.	.	.	43 " " @ 1/10	3	18	10
William Smith	.	.	.	.	43 " " @ 2/-	4	6	-
Fredk. Green	.	.	.	.	44 " " @ 1/8	3	13	4
<i>Wages week ending 26th April</i>								
James Robinson	.	.	.	.	42½ hours worked @ 2/-	4	5	-
John Sawyer	.	.	.	.	44 " " @ 1/10	4	-	8
William Smith	.	.	.	.	42 " " @ 2/-	4	4	-
Fredk. Green	.	.	.	.	42 " " @ 1/8	3	10	-
<i>Wages week ending 3rd May</i>								
James Robinson	.	.	.	.	44 hours worked @ 2/-	4	8	-
John Sawyer	.	.	.	.	44 " " @ 1/10	4	-	8
William Smith	.	.	.	.	44 " " @ 2/-	4	8	-
Fredk. Green	.	.	.	.	44 " " @ 1/8	3	13	4

We will assume that a deduction of 1s. per week is made from each employee's wages for National Health Insurance, and 10d. per week for Unemployment Insurance. The employer

is also required to make similar contributions each week for each employee.

It should be noted that the weekly National Insurance contributions of 1s. (for Health and Pensions) and 10d. (for Unemployment) have been used only for the purpose of illustration. In practice, the student should ascertain the rates of contributions then current, as these are liable to alteration.

We will assume also that the Inland Revenue authorities (i.e. the local Inspector of Taxes) have notified the employer that the tax codes applicable to his workers are as follows—

James Robinson,	Tax Code No.	44
John Sawyer	„	24
William Smith,	„	34
Frederick Green	„	12.

The tax code for any particular employee indicates the total amount of *allowances* which he is allowed to set against his annual earnings before his income tax is computed. “Personal allowances,” as they are called, are not liable to income tax. For example, suppose J. Robinson is a married man and receives a tax-free allowance of £180 per annum. This amount, along with other allowances to which he may be entitled, will be taken into account by the Inspector of Taxes when he fixes the code allowance number. A married person also receives an additional allowance of £50 per year in respect of each child under 16. If Robinson were a single man, he would receive an allowance of £110 per annum.

It might be advisable to mention that the amounts of the “personal allowances” referred to above are given by way of illustrating the working of the Income Tax system as applied to employments. Allowances are liable to amendment each year as a result of the “Budget” proposals which are subsequently enacted in the annual Finance Act. Consequent alterations may also be made in the tax code numbers and tax deduction tables. The accountancy arrangements, as illustrated below, will still apply, whatever alterations are made in the codings, etc., as a result of changes in the rates of tax, allowances, etc.

In the following example, we assume that Robinson’s code number (44) indicates that the total amount of his personal allowances is sufficient to free him from income tax on the weekly wages he is *now* getting.

The codes also take into account other kinds of allowances to which an employee may be entitled, but further reference need not be made to them here as a detailed consideration of allowances, etc., is more appropriate to the student who is undertaking more advanced studies into income tax matters generally.

The employer is not expected to know the precise amount of allowances to which his employees are entitled. It is quite sufficient for him to know a worker's allowance code number which, when used in conjunction with the tax deduction tables, enables the employer to make the correct deduction of tax from his weekly wages.

In order that the illustration which now follows may be completed to the stage of a trial balance, we will assume that on the 12th April, the employer is in business with a capital of £610. This is represented by cash at the bank, £100; insurance stamps in hand, value £10; and sundry assets worth £500.

The student will observe that the National Insurance Stamps a/c is an *asset* account. The opening entry on the debit side shows the value of Insurance stamps on hand on 12th April. The weekly credit entries in this account, which are obtained from figures appearing in the Wages Book, are in respect of stamps which the employer has to place on the employees' insurance cards in accordance with the deductions which he has to make from their wages, as shown in the Wages Book, and to the part contributions which he, as an employer, has to make towards the cost of the stamps.

On the 8th May, a cheque was sent to the Collector of Taxes for the amount of tax deducted from employees' wages for the four weeks ended 3rd May.

The following are the accounts and wages records, etc., in respect of these transactions, together with a Trial Balance extracted on the 8th May.

P.S.—The amounts of tax deducted from employees' earnings, as shown on the income tax deduction cards, have been taken from the Tax deduction tables furnished by the Inland Revenue Authorities, to which the student would have access in actual practice. Space does not permit the reproduction of these tables.

WORKER'S WEEKLY TIME CARD

No. 1

NAME JAMES ROBINSON

WEEK ENDING 12th April, 19..

DAY	IN	OUT	IN	OUT	TOTAL
A.M.	TH 7.56	TH 12.01			
TH.					8
P.M.	TH 12.59	TH 5.00			
A.M.	FR 8.00	FR 12.02			
F.					8
P.M.	FR 1.00	FR 5.02			
A.M.	SA 7.59	S 12.00			
S.					4
P.M.					
A.M.					
SUN.					
P.M.					
A.M.	M 8.01	M 12.00			
M.					8
P.M.	M 12.59	M 5.02			
A.M.	TU 7.57	TU 12.02			
T.					8
P.M.	TU 1.00	TU 5.01			
A.M.	W 7.59	W 12.01			
W.					8
P.M.	W 1.00	W 5.00			

Ordinary Time . . .	44	2S.				£	s.	d.
Overtime . . .	—					4	8	—
Total Wages . . .						4	8	—
Less Nat. Insurance . . .				1	10			
Income Tax . . .				—	—		1	10
Amount paid . . .						£4	6	2

WAGES BOOK (OR PAY SHEET)

Folio 1 WEEK ENDED.....12th April, 19....

No.	Name	Hrs. Worked		Rate	Gross Wages Earned	Deductions				Net Wages Paid	Employer's Nat. Insurance Contributions						
		Ord.	Ov. time			Income Tax	Nat. Insurances		Health		Unemp.	Health	Unemp.				
							s.	d.									
1	James Robinson	44	—	44	2/-	£ 4 8	s. — d. —	£ —	s. — d. —	£ 4 6	s. 6 d. 2	s. 1 d. —	s. — d. 10				
2	John Sawyer	42	—	42	1/10	3 17	—	—	—	3 12	s. 12 d. 2	s. 1 d. —	s. — d. 10				
3	William Smith	40	—	40	2/-	4 —	—	—	—	3 18	s. 18 d. 2	s. 1 d. —	s. — d. 10				
4	Fredk. Green	44	—	44	1/8	3 13	4	—	—	3 2	s. 2 d. 6	s. 1 d. —	s. — d. 10				
						15 18	4	—	—	14 19	s. — d. —	s. 4 d. 3	4				
						Cr. a/c No. 5 Dr. a/c No. 2 (12/-)			Cr. a/c No. 3 Dr. a/c No. 2 (7/4)			Cr. a/c No. 1 Dr. a/c No. 2 (14 19s. od.)			Cr. a/c No. 3 Dr. a/c No. 4 (7/4)		

Folio 2 WEEK ENDED.....19th April, 19....

1	James Robinson	43	—	2/-	£ 4 6	—	—	—	—	£ 4 4	s. — d. 10	—
2	John Sawyer	43	—	1/10	3 18	—	—	—	—	3 11	s. — d. 10	—
3	William Smith	43	—	2/-	4 6	—	—	—	—	4 4	s. — d. 10	—
4	Fredk. Green	44	—	1/8	3 13	—	—	—	—	2 19	s. — d. 10	—
					16 4	—	—	—	—	14 18	s. — d. 3	4

P.S.—Weekly postings to accounts as on 12th April

WAGES BOOK (OR PAY SHEET)

Folio 3 WEEK ENDED....26th April, 19....

No.	Name	Hrs. Worked		Rate	Gross Wages Earned		Deductions				Net Wages Paid		Employer's Nat. Insurance Contributions								
		Ord. time	Ov. time		Ttl.	£	s.	d.	£	s.	d.	£	s.	d.	s.	d.					
																	Income Tax	Nat. Insurances		Health	Unemp.
																		Health	Unemp.		
1	James Robinson	42½	—	42½	2/-	£ 4	5	—	—	—	—	—	—	—	—	—	—	—	—		
2	John Sawyer	44	—	44	1/10	£ 4	—	8	—	—	—	—	—	—	—	—	—	—	—		
3	William Smith	42	—	42	2/-	£ 4	4	—	—	—	—	—	—	—	—	—	—	—	—		
4	Fredk. Green	42	—	42	1/8	£ 3	10	—	—	—	—	—	—	—	—	—	—	—	—		
						15	19	8	—	—	—	—	—	—	—	—	—	—	—		

P.S.—Weekly postings to accounts as on 12th April

P.S.—Weekly postings to accounts as on 12th April

Folio 4 WEEK ENDED....3rd May, 19....

1	James Robinson	44	—	2/-	£ 4 s. 8 d.	—	1	—	—	10	£ 4 s. 6 d.	1	—
2	John Sawyer	44	—	1/10	£ 4 s. — d.	5	1	—	—	10	£ 3 s. 13 d.	1	—
3	William Smith	44	—	2/-	£ 4 s. 8 d.	—	1	—	—	10	£ 4 s. 6 d.	1	—
4	Fredk. Green	44	—	1/8	£ 3 s. 13 d.	11	1	—	—	10	£ 3 s. — d.	1	—
					£ 16 s. 10 d.	16	4	—	—	4	£ 15 s. 6 d.	4	—

P.S.—Weekly postings to accounts as on 12th April

INDIVIDUAL RECORD OF INCOME TAX DEDUCTIONS
WEEKLY WAGE EARNERS — ONE CARD FOR EACH EMPLOYEE

TAX DEDUCTION CARD Year 19.. ending 5th April, 19..	Name of Employee WILLIAM SMITH	Works No.	Branch Dept., etc.
	Address of Employee	Nature of Employment	
		Employer	

CODE 34			Amended Code		Date Applied			District		District Reference								
Week No.	Pay Day	(2)	Gross Pay in the Week	(3)	Total Gross Pay to Date	(4)	Total Tax due to Date as shown by the Tax Tables	(5)	Tax D'ctd in the Week	(6)	Tax R'nd in the Week	(7)	Column headings repeated as left-hand side of card	(8)	(9)	(10)	(11)	(12)
(1)																		
1	19.. April 12		£ 4	d. -	£ -	s. -	£ -	s. -	£ -	s. -	£ -	s. -	£ 14	d. -	£ -	s. -	£ -	s. -
2	" 19		£ 4	d. -	£ 4	s. 6	£ -	s. -	£ -	s. -	£ -	s. -	£ 15	d. -	£ -	s. -	£ -	s. -
3	" 26		£ 4	d. -	£ 8	s. 10	£ -	s. -	£ -	s. -	£ -	s. -	£ 16	d. -	£ -	s. -	£ -	s. -
4	" May 3		£ 4	d. -	£ 12	s. 18	£ -	s. -	£ -	s. -	£ -	s. -	£ 17	d. -	£ -	s. -	£ -	s. -
5			£ 4	d. -	£ 16	s. -	£ -	s. -	£ -	s. -	£ -	s. -	£ 18	d. -	£ -	s. -	£ -	s. -

CODE 12

FREDERICK GREEN

TAX DEDUCTION CARD — HEADINGS REPEATED AS ABOVE

1	19.. April 12	£ 3	d. 4	£ 3	s. 9	£ -	s. -	14																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
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CASH BOOK (BANK COLUMNS ONLY)

A/c No. 1 Cr. .

Dr.		CASH BOOK (BANK COLUMNS ONLY)		A/c No. 1 Cr.	
1912	1913	Dr.	Cr.	W.B.	£
April 12	April 12	To Balance	.	By Wages (net)	14
	" 19			" Wages (net)	14
	" 26			" Wages (net)	14
	May 3			" Wages (net)	15
	" 8			Inland Rev. a/c (tax deducted from wages for month)	3
	" 8			Balance	36
					£ 100
May 9		To Balance	.		36
					17
					2

WAGES ACCOUNT

A/c No. 2 Cr.

Dr.	1911	W.B.	£	s.	d.	1912	£	s.	d.
	April 12	To Cash (net wages)	1	19	-				
	" 12	Insurance Stamp a/c	1	7	4				
	" 12	Inland Rev. a/c (tax deductions)	1	12	-				
	" 19	Cash (net wages)		18	10				
	" 19	Insurance Stamp a/c	2	7	4				
	" 19	Inland Rev. a/c (tax deductions)	2	18	-				
	" 26	Cash (net wages)	3	17	4				
	" 26	Insurance Stamp a/c	3	7	4				
	" 26	Inland Rev. a/c (tax deductions)	3	15	-				
	May 3	Cash (net wages)	4	6	8				
	" 3	Insurance Stamp a/c	4	7	4				
	" 3	Inland Rev. a/c (tax deductions)	4	16	-				
						May 8	By Balance	c/d	
							64	12	2
							<u>£64</u>	<u>12</u>	<u>2</u>
	May 9	To Balance	b/d	12	2		64	12	2

Dr.										INLAND REVENUE COMMISSIONERS (INCOME TAX) A/c										A/c No. 5			Cr.		
19..				£	s.	d.	19..			W.B.	£	s.	d.												
May	8	To Cash .	C.B.	3	1	-	April	12	By Wages a/c—tax deductions	1		12	-												
							"	19	" Wages a/c—tax deductions	2		18	-												
							"	26	" Wages a/c—tax deductions	3		15	-												
							May	3	" Wages a/c—tax deductions	4		16	-												
				£3	1	-					£3	1	-												

Dr. SUNDRY ASSETS A/c										A/c No. 6			Cr.		
19..				£	s.	d.									
April	12	To Balance	b/d	500	-	-									

Dr.										CAPITAL A/c										A/c No. 7										Cr.																																																	
										19..										April 12										By Balance										b/d										£ 610										s. -										d. -									

TRIAL BALANCE AS AT 8TH MAY, 19..

					Dr.			Cr.		
					£	s.	d.	£	s.	d.
Cash at Bank .	.	.	.	C.B.	36	17	2			
Wages .	.	.	.	a/c 2	64	12	2			
Insurance Stamps	.	.	.	a/c 3	7	1	4			
National Insurances : Employer's Contributions	.	.	.	a/c 4	1	9	4			
Sundry Assets	.	.	.	a/c 6	500	-	-			
Capital.	.	.	.	a/c 7				610	-	-
					£610	-	-	£610	-	-

In concluding this chapter, it may be helpful to comment on the reasons for posting the various weekly columnar totals in the Wages Book to the Ledger a/cs concerned.

The purpose of the Wages a/c, Insurance Stamps a/c, National Insurance (Employer's) a/c, and Income Tax a/c is to show the *total* weekly costs of these items; and the weekly totals of the various columns in the Wages Book will supply the information for making *the double-entry records* in these accounts.

If we look at the Wages Book for the week ended 12th April, we see that—

- (a) *A total of 12s. was deducted from wages for income tax.* This amount is posted to the Ledger by *crediting* Income Tax Commissioners a/c with 12s. and *debiting* Wages a/c with a similar amount. The I.T. Commissioners a/c is credited because the tax authorities are creditors for this sum.

The Wages a/c is debited because the employees (represented by the Wages a/c) *receive a service*—in the form of State services—towards the cost of which they pay income tax by deductions from wages. For the purpose of explanation, debiting the Wages a/c for *employees' income tax* may be compared to debiting a personal account with discount when the person concerned receives less in cash than he is entitled to.

- (b) *Total deductions of 7s. 4d. from wages in respect of insurances.* In this case also, the National Insurance Stamps a/c is *credited* because the account parts with value (in stamps), and the Wages a/c is *debited* because the benefit of insurance *service* is received by the employees, in lieu of part of their wages.
- (c) *Net wages paid to employees, £14 19s.* Here, the Cash a/c is credited with £14 19s., and Wages a/c is debited with the same amount.
- (d) *Employer's contributions on account of employees' insurances, totalling 7s. 4d.* Here again, National Insurance Stamps a/c is credited with 7s. 4d. because this account gives value—in stamps—and the National Insurance (Employer's Contribution) a/c is debited because it represents the cost *to the employer* for employees' insurance services.

Similar postings from the Wages Book to the Ledger a/cs will be repeated each week throughout the year.

Employees' Contributions to Sports, Holidays, and Hospital Funds, etc. When employees contribute to funds like these, a record of the weekly or monthly deductions from their wages will be made on their wages cards, and an additional column will be included in the Wages Book for each fund of this kind. When deductions are made from their wages, the total weekly amount of these deductions, as shown by the

“ Sports Fund column ” in the Wages Book, would be used to *credit* a Sports Fund a/c, and debit the Wages a/c, in the same way as for other deductions from wages. If cash were spent for the purchase of, say, sports equipment, the Cash a/c would be credited and the Sports Fund a/c debited. The balance in the latter account at any time would represent the amount available for spending on sports activities.

The wages transaction for each employee is completed by his signing a pay receipt form, at the time of payment. It is the custom to give the direct worker a pay ticket to show his gross wages and how his net wages are arrived at.

Advances. If a worker receives an advance before a pay day, it can be recorded by having an additional column in the Wages Book for the purpose. When the book is completed at the end of the week, the advance will be deducted from his gross wages, in the same way as for insurance contributions, etc.

Labour Cost. It will be noted that the labour cost to the business each week is the *gross* amount of wages, which includes the workers' net wages, their contributions for insurances, and income tax. This is why the two latter items are included in the Wages a/c; and, for direct workers, they form part of the *prime cost* of production. The employer's insurance contributions are also a production expense and, at the end of the year, the account for them is closed by transferring the yearly cost to the manufacturing or Trading account.

Revenue and Capital Expenses. Reference has been made to the fact that manufacturing concerns employ two main classes of workers—

- (1) those who are engaged in producing goods for sale (direct labour) ;
- (2) service workers who are employed on ancilliary work and on maintenance and repair jobs. The assistance rendered by these workers enables production to be carried on in a proper manner. Such labour is known as indirect labour.

It may occasionally happen that repair jobs need the additional help of production workers. At such times they become, for book-keeping purposes, indirect workers, and their wages will be charged to an Indirect Wages a/c instead

of to the usual Direct Wages a/c. When a repair job is costed, the indirect labour and materials used on it may both be charged to the Repairs a/c that is opened for it, instead of to an Indirect Wages a/c and Materials a/c respectively.

For example, if indirect labour costing £35 were used on, say, Repair Job No. 40, the posting of this item from the Wages Analysis Book would entail crediting the Wages a/c and the corresponding debit entry would be made in Repair Job No. 40 a/c instead of in Indirect Wages a/c. The Wages a/c so credited would have been debited with the net wages, income tax deductions, and employees' National Insurance contributions from the totals appearing in the Wages Book in the manner described in the foregoing pages of this chapter. This form of diversion provides a more effective control of expenses like indirect labour and materials, and in no way affects the accuracy of the final accounts, as the £35 wages will appear in the Manufacturing and Trading a/c under the title of "Repairs," instead of "Indirect Wages." Any consumable stores and production materials used on such a repair job would be recorded in the same way, i.e. credit the Consumable Stores a/c or Stock a/c, as the case may be, and debit the Repairs a/c.

Such transactions have to be recorded, first of all, in a suitable Day Book, which may be constructed like a Sales Day Book and referred to, if desired, as a Repairs Day Book. The "particulars" column would be used to record the individual Repairs a/cs concerned and there would be analytical expense columns for "indirect labour," "consumable stores," and for "direct purchases," the latter being for items bought specially for individual jobs. The information for these expense columns would be got from Wages Books, workers' time sheets, stores issued and stores returned notes, invoices, etc., so as to get a complete list of costs for each job.

Labour and Materials Used for Improvements and Additions to Fixed Assets. In addition to production and repair work, a manufacturing business may occasionally employ some of its workers on jobs connected with *improving* or making *additions* to its fixed assets. *All classes of workers* engaged on such work will be regarded as *indirect* labour. Work on improvements to fixed assets must be distinguished from repair and maintenance work, as the former adds to the value of such

assets and so it must be recorded in the accounts to show the amount of incremental value. For example, wages of labour employed on such work will be recorded by crediting the Wages a/c and debiting the Fixed Asset a/c concerned (e.g. Machinery a/c, Loose Tools a/c, etc.) instead of debiting the Indirect Wages a/c. If materials are drawn from store for such work they will also be charged to the Fixed Asset a/c in the same way as for repairs. The primary records will be entered in a suitable Day Book on the lines of the Repairs Day Book, or the latter may be adapted for jobs involving improvement work.

The particulars column in the Day Book would show the Fixed Assets a/cs concerned and the constituent expense columns would be the same as for the Repairs Day Book ; and the information for writing up the book would be obtained from the same sources. This method of treating expenditure on improvements and additions to fixed assets ensures that expenses and costs are charged to the accounts (i.e. the fixed asset accounts) as capital expenditure, and not to expense accounts, and ultimately to the final accounts, as revenue expenditure.

Example. On 1st January, the Ledger balances of J. Brown & Co. were as follows :—Bank a/c, £270 ; Petty Cash a/c, £15 ; Machinery, etc., £350 ; Loose Tools, Patterns, etc., a/c, £65 ; Packing materials, £25 ; Stocks—(a) Leather, £370 ; (b) Lining materials, etc., £65 ; (c) partly finished goods, £135 ; (d) finished goods, £640.

From the following particulars of transactions in the four weeks ended 28th January, complete the accounts. Provide the Petty Cash a/c with analysis columns for (1) carriage on sales ; (2) office expenses ; (3) cleaning materials ; (4) postage stamps ; (5) insurance stamps ; (6) sundry expenses.

- Jan. 3. Bought from Johnson & Co., leather, £150 ; lining materials, £35.
 „ 4. Bought packing cases from J. Wood, £5 10s.
 „ 7. Paid wages by cheque (direct labour), £30.
 „ 8. Cash sales, paid into bank, £80.
 „ 10. Sold goods to T. Wilkins & Co., £50 ;
 Additional charges—Packing materials (returnable), £2.
 „ 14. Paid wages by cheque, £30.
 „ 15. Settled Johnson & Co.'s account by cheque, less 2% discount.

- Jan. 20. Sold goods to T. Wilkins & Co., £125.
 Additional charges—packing cases (returnable), £2 10s. ;
 Carriage, £1 10s.
- „ 21. Paid wages by cheque, £30.
- „ 22. Sent credit note to T. Wilkins & Co. for packing materials
 returned, £2.
- „ 23. Cash sales paid to bank, £37.
- „ 25. Bought loose tools and paid by cheque, £3 10s.
- „ 28. Drew cheque for wages, £30.

The following Petty Cash payments were made in January—

- Jan. 2. Bought postage stamps, £3.
- „ 2. Bought Insurance stamps, £2 10s.
- „ 4. Paid carriage on parcels (cash sales), 10s. 6d.
- „ 7. Bought office stationery, £1 10s.
- „ 14. Bought cleaning materials (factory), 17s. 6d.
- „ 16. Bought Insurance stamps, £3 10s.
- „ 17. Contribution to local hospital, 5s.
- „ 20. Paid carriage on goods by carrier, 7s. 6d.
- „ 22. Paid for telegrams, 2s.
- „ 26. Paid for advertisement in local paper, 10s. 6d.
- „ 27. Paid for newspapers, 5s. 6d.

Other transactions were—

- (a) Postage stamps *used* in January, £1 4s. 6d.
- (b) Total insurances (Health and Unemployment) contributed by employees amounted to 12s. 10d. each week.
 The firm made a similar contribution each week.
- (c) Total contributions of employees' P.A.Y.E. in income
 tax each week—
- | | |
|-----------|---------|
| 1st week, | £1 15s. |
| 2nd „ | £1 10s. |
| 3rd „ | £1 5s. |
| 4th „ | £1 10s. |

On 28th January, the following valuations of stocks were made—(a) Leather, £220; (b) Lining materials, etc., £40; (c) partly manufactured goods, £140; (d) manufactured goods, £900.

PURCHASES DAY BOOK

Date	Inv'ce No.	Supplier	Particulars	Led. Folio	Total of Invoice	Goods				Assets a/cs	Expenses a/cs
						Leather	Lin'gs, etc.				
19..											
Jan. 3		Johnson & Co.	Goods		£ 185	£	£	£	£	£	£
" 4		J. Wood	Packing materials		5 10	-	-	-	-	-	-
" 31		Totals of Sundries for January posted to accounts concerned			£ 190 10	-	-	-	-	-	-
						L 27	L 28				L 40

SALES DAY BOOK

Date	Inv'ce No.	Customer	Particulars	Led. Folio	Total of Invoice	Goods	Expense a/cs			
							Packing Materials a/c	Carriage on Sales a/c		
19..										
Jan. 10		Wilkins & Co.	Goods		£ 52	£	£	£	£	£
" 20		Wilkins & Co.	Goods		129	-	-	-	-	-
" 31		Totals of Sundries for January posted to accounts concerned			£ 181	-	-	-	-	-
						L	L 40	L		

SALES RETURNS BOOK

Date	Ref'ce	Customer	Particulars	Led. Folio	Total		Goods	Expense a/cs	
					£	s.		£	s.
19.. Jan. 22	C/N	Wilkins & Co.	Packing Materials returned		2	-	-	2	-
" 31		Totals of Sundries for January posted to accounts concerned			£2	-	-	£2	-
								L 40	

P.S.—The Wages Book has not been illustrated, as only weekly totals of wages, etc., are given in the exercise.

Dr.

CASH ACCOUNT

Cr.

Date	Particulars	Folio	Discount		Bank	Date	Particulars		Folio	Discount		Bank
			£	s.			£	s.		£	s.	
19.. Jan. 1	To Balance					19.. Jan. 7	By Wages		W. Bk.			
" 8	" Cash Sales a/c		270	-		" 14	" Wages		W. Bk.	30	-	
" 23	" Cash Sales a/c		80	-		" 15	" Johnson & Co. a/c			30	-	
			37	-		" 21	" Wages		W. Bk.	181	6	
						" 25	" Loose Tools a/c			30	-	
						" 28	" Wages		W. Bk.	3	10	
						" 31	" Total discount for Jan. posted to Discount a/c			30	-	
						" 31	" Balance c/d			3	14	
										82	4	
Feb. 1	To Balance b/d		£							£		
			387	-						387	-	
			82	4								

Dr. PETTY CASH BOOK Cr.

£	s.	d.	Date	Particulars	Voucher	Total		Cleaning Materials a/c	Carriage on Sales a/c		Postage Stamps a/c		Insurance Stamps a/c		Office Expenses a/c		Sundry Expenses a/c	
						£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£
15	-	-	19..	To Balance	—	3	—	—	—	—	—	—	—	—	—	—	—	—
	-	-	Jan. 1	By Postage Stamps	—	2	10	—	—	—	—	—	—	—	—	—	—	—
	-	-	" 2	Insurance Stamps	—	1	10	—	—	—	—	—	—	—	—	—	—	—
	-	-	" 4	Carriage on sales	1	1	10	—	6	—	—	—	—	—	—	—	—	—
	-	-	" 7	Stationery (Office)	2	1	17	—	10	—	—	—	—	—	—	—	—	—
	-	-	" 14	Clean'g Materials	3	3	10	6	—	—	—	—	—	—	—	—	—	—
	-	-	" 16	Insurance Stamps	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	-	-	" 17	Contrib'n to Hosp.	4	—	—	—	—	—	—	—	—	—	—	—	—	—
	-	-	" 20	Carriage on Sales	5	—	—	—	7	—	—	—	—	—	—	—	—	—
	-	-	" 22	Telegrams	6	—	—	—	—	—	—	—	—	—	—	—	—	—
	-	-	" 26	Advertisement	7	—	—	—	—	—	—	—	—	—	—	—	—	—
	-	-	" 27	Newspapers	8	—	—	—	—	—	—	—	—	—	—	—	—	—
	-	-	" 31	Balance c/d		£13	8	6	18	—	—	6	—	—	1	10	—	—
	-	-				1	11	—	—	—	—	—	—	—	—	—	—	—
£15	-	-				£15	—	—	—	—	—	—	—	—	—	—	—	—
1	11	6	Feb. 1	To Balance b/d			—	—	—	—	—	—	—	—	—	—	—	—

WORKED EXERCISE

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Dr.			J. BROWN & Co. CAPITAL A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Balance c/d		2,000	8	4	Jan. 1	By Balance		1,935	-	-
						" 31	" Net profit transferred from P. & L. a/c		65	8	4
			<u>2,000</u>	<u>8</u>	<u>4</u>				<u>2,000</u>	<u>8</u>	<u>4</u>
						Feb. 1	By Balance b/d		<u>2,000</u>	<u>8</u>	<u>4</u>

Dr.		MACHINERY, Etc. A/c						Cr.	
19..			£	s.	d.				
Jan. 1	To Balance	.	350	-	-				

Dr.		LOOSE TOOLS, PATTERNS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance	.	65	-	-	Jan. 31	By Balance c/d	68	10	-
" 25	" Cash a/c	.	3	10	-					
			<u>£68</u>	<u>10</u>	<u>-</u>			<u>£68</u>	<u>10</u>	<u>-</u>
Feb. 1	To Balance b/d	.	68	10	-					

Dr.		STOCK A/c (LEATHER)						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance		370	-	-	Jan. 31	By Transfer to Trading a/c		370	-	-
			<u>370</u>	<u>-</u>	<u>-</u>				<u>370</u>	<u>-</u>	<u>-</u>
Feb. 1	To Trading a/c		220	-	-						

Dr.		STOCK A/c (LINING MATERIALS)						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance		65	-	-	Jan. 31	By Transfer to Trading a/c	65	-	-
			<u>£65</u>	<u>-</u>	<u>-</u>			<u>£65</u>	<u>-</u>	<u>-</u>
Feb. 1	To Trading a/c		40	-	-					

Dr.		STOCK A/c (PARTLY FINISHED GOODS)						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance		135	-	-	Jan. 31	By Transfer to Trading a/c	135	-	-
			<u>135</u>	<u>-</u>	<u>-</u>			<u>135</u>	<u>-</u>	<u>-</u>
Feb. 1	To Trading a/c		140	-	-					

Dr.		STOCK A/c (FINISHED GOODS)						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance		640	-	-	Jan. 31	By Transfer to Trading a/c	640	-	-
			£ 640	-	-			£ 640	-	-
Feb. 1	To Trading a/c		900	-	-					

Dr.		PACKING MATERIALS A/c					Folio 40		Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance . .		25	-	-	Jan. 31	By Materials used	S.D.			
" 31	" Returns . .	S.R.B.	2	-	-		(January) .	Bk.	4	10	-
" 31	" Purchases for	P.D.B.				" 31	" Balance c/d .		28	-	-
	January .		5	10	-						
			<u>£32</u>	<u>10</u>	<u>-</u>				<u>£32</u>	<u>10</u>	<u>-</u>
Feb. 1	To Balance b/d .		28	-	-						

Dr.			CREDIT SALES A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c		175	—	—	Jan. 31	By Total of Credit Sales for Jan.	S.D. Bk.	175	—	—
			£ 175	—	—				£ 175	—	—

Dr.		CASH SALES A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c		117	-	-	Jan. 8	By Cash a/c		80	-	-
			117	-	-	" 23	" Cash a/c		37	-	-
			£ 117	-	-				£ 117	-	-

Dr.		CREDIT PURCHASES A/c (LEATHER)						Folio 27		Cr.	
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total of Credit purchases for January	P.D. Bk.	150	—	—	Jan. 31	By Transfer to Trading a/c		150	—	—
			150	—	—				150	—	—
			£ 150	—	—				£ 150	—	—

Dr.		CREDIT PURCHASES A/c (LINING MATERIALS)						Folio 28		Cr.	
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total of Credit purchases for January	P.D. Bk.	35	-	-	Jan. 31	By Transfer to Trading a/c		35	-	-
			<u>£35</u>	-	-				<u>£35</u>	-	-

Dr.		J. WOOD A/c							Cr.		
						19..			£	s.	d.
						Jan. 4	By Goods (pack'g cases)	P.D. Bk.	5	10	-

WORKED EXERCISE

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Dr.			JOHNSON & Co. A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 15	To Cash a/c	C.B.	181	6	—	Jan. 3	By Goods	P.D.	185	—	—
" 15	" Discount	"	3	14	—			Bk.			
			£	185	—				£	185	—

Dr.			WILKINS & Co. A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 10	To Goods .	S.D.B.	52	-	-	Jan. 22	By Returns	S.R.	2	-	-
" 20	" Goods .	S.D.B.	129	-	-	" 31	(cases)	Bk.	179	-	-
							" Balance c/d				
			181	-	-				181	-	-
Feb. 1	To Balance b/d .		179	-	-						

Dr.			POSTAGE STAMPS A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Purchases (January)	P.C. Bk.	3	-	-	Jan. 31	By Stamps Used a/c (stamps used in Jan.)		1	4	6
						" 31	" Balance c/d		1	15	6
			£3	-	-				£3	-	-
Feb. 1	To Balance b/d		1	15	6						

Dr.			POSTAGE STAMPS USED A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Pstge. Stamps a/c (amt. used in January)					Jan. 31	By Transfer to P. & L. a/c				
			1	4	6				1	4	6
			£1	4	6				£1	4	6

Dr.			CARRIAGE ON SALES A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total expenditure (Jany.)	P.C.B.		18	-	Jan. 31	By Amt. charged to customers' a/cs	S.D. Bk.		1	10
„ 31	„ Balance transferred to P. & L. a/c			12	-						-
			£1	10	-				£1	10	-

Dr.			OFFICE EXPENSES A/c						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total purchases	P.C.B.	£1	10	-	Jan. 31	By Transfer to P.		£1	10	-
.	(January)						& L. a/c				

Dr.		SUNDRY EXPENSES A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total expenditure (Jany.)	P.C.B.	1	3	—	Jan. 31	By Transfer to P. & L. a/c		1	3	—

Dr.		CLEANING MATERIALS (FACTORY) A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 31	To Total purchases (January)	P.C.B.		17	6	Jan. 31	By Transfer to Trading a/c .		17	6

Dr.		DISCOUNT A/c						Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to P. & L. a/c		3	14	-	Jan. 31	By Total of discent. for January, posted from Cash Book .				
								C.B.	3	14	-
			£3	14	-				£3	14	-

Dr.		INSURANCE STAMPS USED A/c (EMPLOYER'S CONTRIBUTIONS)						Cr.		
19..		Wages Book Folio	£	s.	d.	19..		£	s.	d.
Jan. 7	To Ins'ce Stamps	27		12	10	Jan. 31	By Transfer to Trading a/c .			
" 14	" " "	"		12	10			2	11	4
" 21	" " "	"		12	10					
" 28	" " "	"		12	10					
			£2	11	4			£2	11	4

Dr.		INSURANCE STAMPS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Jan. 31	To Total purchases for January .	P.C.B.	6	-	-	Jan. 7	By Stamps used (workers)	W.B.	12	10
						" 7	" " (employer)	"	12	10
						" 14	" " (workers)	"	12	10
						" 14	" " (employer)	"	12	10
						" 21	" " (workers)	"	12	10
						" 21	" " (employer)	"	12	10
						" 28	" " (workers)	"	12	10
						" 28	" " (employer)	"	12	10
						" 31	" Balance c/d .	"	17	4
			£6	-	-			£6	-	-
Feb. 1	To Balance b/d .			17	4					

INCOME TAX COMMISSIONERS A/c											
Dr.			(FOR EMPLOYEES' CONTRIBUTIONS)					Cr.			
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Balance c/d		6	-	-	Jan. 7	By Total deductns.	W.B.	1	15	-
						" 14	" " "	"	1	10	-
						" 21	" " "	"	1	5	-
						" 28	" " "	"	1	10	-
			£6	-	-				£6	-	-
						Feb. 1	By Balance b/d		6	-	-

WORKED EXERCISE

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Dr.			WAGES A/c (DIRECT WORKERS)						Cr.			
19..			£	s.	d.	19..			£	s.	d.	
Jan.	7	To Net Wages .	W. B.	30	—	Jan.	31	By Transfer to				
"	7	" Insur'ce Stmps	"		12	10		Trading a/c .	128	11	4	
"	7	" Income Tax .	"	1	15	—					"	
"	14	" Net Wages .	"	30	—	—						
"	14	" Insce. Stamps	"		12	10						
"	14	" Income Tax .	"	1	10	—						
"	21	" Net Wages .	"	30	—	—						
"	21	" Insce. Stamps	"		12	10						
"	21	" Income Tax .	"	1	5	—						
"	28	" Net Wages .	"	30	—	—						
"	28	" Insce. Stamps	"		12	10						
"	28	" Income Tax .	"	1	10	—						
				£	128	11	4		£	128	11	4

TRIAL BALANCE ON 31ST JANUARY, 19..

Dr.

Cr.

TITLE OF ACCOUNT	£	s.	d.	£	s.	d.
Cash a/c	82	4	-			
Petty Cash a/c	1	11	6			
Brown & Co. Capital a/c				1,935	-	-
Machinery a/c	350	-	-			
Loose Tools, etc. a/c	68	10	-			
Stock a/c (leather)	370	-	-			
" (lining materials)	65	-	-			
" (partly made goods)	135	-	-			
" (finished goods)	640	-	-			
Packing materials	28	-	-			
Credit Sales a/c				175	-	-
Cash Sales a/c				117	-	-
Credit Purchases a/c (leather)	150	-	-			
" (linings)	35	-	-			
J. Wood a/c				5	10	-
Wilkins & Co. a/c	179	-	-			
Postage Stamps a/c	1	15	6			
Postage Stamps Used a/c	1	4	6			
Carriage on Sales a/c					12	-
Office Expenses a/c	1	10	-			
Sundry Expenses a/c	1	3	-			
Cleaning Materials a/c		17	6			
Discount a/c				3	14	-
Insurance Stamps Used a/c	2	11	4			
(Employer's a/c)						
Insurance Stamps a/c		17	4			
Income Tax Commissioners a/c				6	-	-
Wages a/c (direct workers)	128	11	4			
	£	2,242	16		2,242	16

Dr.

TRADING A/C FOR PERIOD ENDED 31ST JANUARY, 19..

Cr.

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Transfers from Sun-							By Transfer from—						
dry Stocks a/c							Credit Sales a/c	175	—	—			
(values 1st Jan.)—							Cash Sales a/c	117	—	—			
Leather a/c.	370	—	—								292	—	—
Linings a/c	65	—	—				„ Sundry Stocks a/c						
„ Partly Made Goods							(values 31st Jan.)						
a/c	135	—	—				Leather a/c	220	—	—			
„ Finished Gds. a/c	640	—	—				Linings a/c	40	—	—			
				1,210	—		Partly-made Gds.						
„ Transfers from—							a/c	140	—	—			
Purchases a/c							Finished Gds. a/c	900	—	—	1,300	—	—
(leather)	150	—	—										
Purchases a/c													
(linings)	35	—	—										
				185	—								
Wages a/c													
(direct workers)				128	11	4							
Insce. Stamps													
Used a/c (em-				2	11	4							
ployer's)													
Cleaning Mater-													
ials a/c						17							
„ Gross profit trans-													
ferred to P. & L.													
a/c				64	19	10							
				£ 1,592	—	—					£ 1,592	—	—

Dr.

PROFIT & LOSS A/C FOR PERIOD ENDED 31ST JANUARY, 19..

Cr.

	£	s.	d.		£	s.	d.
To Transfers from—				By Gross profit from—			
Office Expenses a/c.	1	10	—	Trading a/c		64	19 10
Sundry Expenses a/c	1	3	—	„ Transfers from—			
Post'ge Stmps. Used				Discount a/c		3	14 —
a/c	1	4	6	Carriage on Sales			12 —
„ Net profit transfer'd				a/c			
to Capital a/c	65	8	4				
	£69	5	10			£69	5 10

BALANCE SHEET AS AT 31ST JANUARY, 19..

LIABILITIES						ASSETS							
	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Brown & Co.: Capital							Machinery				350	-	-
a/c 1st Jan., 19..	1,935	-	-				Loose Tools				68	10	-
Add net profit	65	8	4				Packing Materials				28	-	-
				2,000	8	4	Stocks on hand (in-						
							cluding work in pro-						
							gress)				1,300	-	-
Sundry Creditors—							Sundry Debtors						
Income Tax Com'rs	6	-	-				Wilkins & Co.				179	-	-
J. Wood	5	10	-				Cash at Bank				82	4	-
				11	10	-	Petty Cash	1	11	6			
							Insurance Stamps			17	4		
							Postage Stamps	1	15	6			
											4	4	4
				£ 2,011	18	4					£ 2,011	18	4

EXERCISES

No. 1

Rule a Petty Cash Book with analysis columns for Travelling Expenses, Carriage on Sales, Carriage on Purchases, Postage Stamps, Telegrams, Cleaning Materials, Sundry Office Expenses, and enter up the following transactions. The book is to be kept on the imprest system, the amount of the Imprest being £10.

- Aug. 1. Received from cashier for Petty Cash, £10.
 „ 1. Paid 'bus fares, 1s. 6d. ; telegrams, 4s. 3d.
 „ 3. Bought postage stamps, £2 10s.
 „ 4. Paid for string, 1s. 6d. ; telegram, 1s. 7d.
 „ 5. Paid carriage on goods sold, 14s.
 „ 6. Paid carriage on goods purchased, 9s. 6d.
 „ 7. Paid taxi fares, 6s.
 „ 8. Bought envelopes, 7s. 6d. ; nibs, 2s. 3d.
 „ 10. Paid for cleaning materials, 9s. 6d.
 „ 12. Paid for repairs to typewriter, 16s. 6d.
 „ 12. Paid for carriage on goods sold, 4s. 6d.
 „ 14. Bought postage stamps, £1 10s.

Balance Petty Cash Book as on 14th August, carry down the balance, and show the amount required to bring the petty cash up to £10.

<i>Answer :</i> Expenditure to 14th August	£7	18	7
Analysis columns : Travelling Expenses		7	6
Carriage on Sales		18	6
Carriage on Purchases		9	6
Postage Stamps	4	—	—
Telegrams		5	10
Cleaning materials		9	6
Sundry Office Expenses	1	7	9
Balance carried down, £2 1s. 5d.			

No. 2

The following is a summary of the figures taken from the Wages Book of Geo. Wood & Co., for the month of February—

Wages week ended

	7th Feb.	14th Feb.	21st Feb.	28th Feb.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Gross wages for week	97 10 4	140 4 2	120 4 7	191 2 3
Deductions from wages				
Income Tax	14 4 —	22 10 —	19 17 —	15 5 —
Pension Fund	4 17 6	14 4 —	12 — —	9 10 —
National Health and Unemployment Ins. contributions	4 2 6	6 5 4	5 17 8	7 18 —
Net wages paid	74 6 4	97 4 10	82 9 11	158 9 3
Employer's contbns. :				
National Health and Unemployment Ins. contributions	4 2 6	6 5 4	5 17 8	7 18 —

The balances in hand on the 1st February were—Cash, £740 10s. ; and Insurance stamps, £60 15s. On the 15th February, Insurance stamps to the value of £15 were purchased for cash. Health and Unemployment stamps were taken each week from the stock of stamps in respect of the employer's and employees' contributions.

Record the above transactions in the respective accounts and prepare a Trial Balance as at the 28th February.

Answer : Trial Balance totals, £913 12s. 6d. ; Wages a/c total (debit balance), £549 1s. 4d. ; Insurance stamp a/c (debit balance), £27 8s.

No. 3

Enter the following in the appropriate Day Books and Accounts and prepare the final accounts—

On the 1st January the following balances appeared in the Ledger of W. Ranson & Sons :

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Freehold Premises a/c	800	—	—			
Machinery & Plant a/c	500	—	—			
Bank a/c	643	10	—			
Petty Cash a/c	25	—	—			
Loose Tools a/c	75	10	—			
Stock a/cs—						
Finished Goods a/c	380	—	—			
Partly Finished Goods a/c	420	—	—			
<i>Debtors—</i>						
P. Johnson	90	—	—			
W. Greenwood	80	—	—			
<i>Creditors—</i>						
K. Matthews & Co.				140	—	—
L. Wright				60	—	—
Capital a/c				2,814	—	—
	<u>£3,014 — —</u>			<u>£3,014 — —</u>		

The transactions for the four weeks ended the 28th January were as follows. The Petty Cash Book should be provided with analysis columns for (1) Postage stamps ; (2) Cleaning materials ; (3) Office expenses ; (4) Carriage on Sales ; (5) Carriage on purchases ; (6) Sundry expenses ; (7) Insurance stamps.

- Jan. 2. Bought from L. Wright, metal £40.
 „ 3. Bought from K. Matthews & Co., hardware £92 10s.
 „ 5. Settled L. Wright's account outstanding at the 1st January and deducted 2½% cash discount.
 „ 6. Paid wages for week, £75 10s. (net)—drew cheque.
 „ 9. Cash sales paid into bank, £25 10s.
 „ 12. Sold goods to P. Johnson, £780.
 „ 13. Paid wages for week, £100 10s. (net)—drew cheque.

- Jan. 14. Received cheque from W. Greenwood in settlement of his account, *less* $2\frac{1}{2}\%$ cash discount.
 „ 17. Sent credit note to P. Johnson for £2, being allowance for defective goods sold.
 „ 18. Bought from M. Young & Co., metal £120, and hardware £60.
 „ 20. Paid wages for week, £90 15s. (net)—drew cheque.
 „ 20. Cash sales for period 10th to 20th January paid into bank, £112 5s.
 „ 20. Sold for cash, second-hand machine for £20. Its book value was £35 (part of Machinery and Plant a/c balance of £500).
 „ 20. Office salaries paid by cheque, £50.

The following payments were made from Petty Cash during the period 1st to 20th January—

- Jan. 3. Bought postage stamps, £1 10s.
 „ 7. Paid carriage on parcels (cash sales), £1 0s. 10d.
 „ 8. Paid for Insurance stamps, £14 10s.
 „ 9. Bought office stationery, 15s. 3d.
 „ 12. Paid 12s 6d. carriage on purchases.
 „ 15. Paid 18s 6d. for cleaning materials for factory.
 „ 17. Paid for Insurance stamps, £3 10s.
 „ 18. Paid for newspaper advertisement, £1 3s. 6d.
 „ 20. Paid travelling expenses (fares), 14s. 3d.

The value of postage stamps *used* during the period was £1 2s. 3d.
 The deductions from *wages* were as follows—

	Health & Un-employment Insurance			Pension Fund contribution			P.A.Y.E. Income Tax		
	£	s.	d.	£	s.	d.	£	s.	d.
January 6th . . .	2	1	—	3	—	—	12	—	—
„ 13th . . .	2	16	—	4	5	—	14	10	—
„ 20th . . .	2	13	—	3	17	6	13	—	—

(The firm made a similar contribution each week for Insurance stamps.)
 On the 20th January, the value of stock held was as follows—
 Finished goods, £580 10s. Partly finished goods, £139 10s.
 Loose Tools, £75 10s.

Answer : Trial Balance totals, £4,234 7s. 6d.
 Gross profit, £189 6s. 6d.
 Net profit, £119 0s. 5d.
 Balance Sheet totals, £3,436 2s. 11d.

No. 4

A. Thompson & Co. carried on the business of mechanic and motor repairers. On the 1st January, the Company had the following assets and liabilities—

Assets : Premises, £800 ; machinery and plant, £400 ; stock of spare parts, £215 10s. ; cash at bank, £250 ; stock of National Insurance stamps, £25.

Liabilities : Pension Fund balance, £50 ; Inland Revenue Commissioners (for tax deduction from employees), £5 10s.

The following is a summary of the time worked and bonus earned by four employees, A, B, C, and D, for the week ended the 7th January.

Employees	Hours Worked	Rate of Pay per hour	AMOUNT TO BE DEDUCTED	
			For Income Tax	For National Ins'ce Stamps
		s. d.	s. d.	s. d.
A . . .	47	2 -	8 -	1 10
B . . .	47	2 6	11 -	1 10
C . . .	47	2 3	6 -	1 10
D . . .	49½	2 -	16 -	1 10

In addition to receiving wages on the basis of the hours employed, additional wages by way of bonus were paid as follows—Employee B, 12s. ; employee C, 5s. 5d. The employees were required to contribute to a Pension Fund, the rate of contribution being 5% of their earnings for a week of 47 hours.

The firm's contributions for Health and Unemployment Insurances were the same as the employees' contributions.

Insurance stamps were taken from the Insurance stamps stock and affixed to the Insurance cards to the amount of the total of the employees' and the firm's contributions.

Record the above transactions in the firm's Wages Book and accounts and extract a Trial Balance as at the 7th January.

Answer : Trial Balance totals, £1,693 11s. 7d. ; Wages a/c balance, £21 13s. 8d. ; Pension Fund a/c balance (Cr.), £51 0s. 7d.

CHAPTER VIII

THE Journal—Opening and Closing Entries, etc.—Difference a/c—More About the Bank Account—Loan a/cs—Overdrafts—More About Cheques—Order and Bearer Cheques—Open and Crossed Cheques—Endorsements—Dishonoured Cheques—Insolvency and Bankruptcy—Bank Reconciliation Statement—Pass Book—Exercises.

FROM the system of book-keeping developed in previous chapters, the student will see that all transactions that can be placed into classes are *first of all* recorded in appropriate Day Books *for that purpose*, before being entered in the Ledger.

It is one of the main rules of book-keeping that *all* transactions should first of all be recorded in some book of prime entry (i.e. Day Book) before being entered in the Ledger. The only exception to this rule is in the case of *cash transactions*. As we know the Cash Book, which contains the Cash a/c, is really part of the Ledger, and it is because it also *classifies* a certain type of transactions (cash transactions) that it can also be regarded as a book of prime entry.

As, therefore, we have come to regard the Cash a/c as a Day Book of original entry, we have seen from the worked exercises in previous chapters that the only transactions which were not first of all recorded in a Day Book of one kind or other were those which could not be suitably classified. Such transactions usually relate to matters like the following—

- (a) *Opening entries*. E.g. J. Brown began business with £500 in cash, etc.
- (b) *Closing entries*. Such transactions are made at the end of the year for the purpose of transferring items from nominal accounts to the final accounts.
- (c) *The valuation of assets*. E.g. depreciating the book values of assets.
- (d) *The correction of errors in, and omissions from, accounts*.

The Journal. As transactions of the kind mentioned above cannot be recorded in any of the Day Books we have already described, they will have to be recorded in a Day Book for non-classifiable items. Such a book is known as the *Journal*. Seeing that any transaction primarily recorded in the Journal will be of an *individual* kind, the record should be accompanied

by a short statement showing the *reason* for the transaction, so that the purpose of the transaction may not be forgotten. A Journal statement of this kind is known as a "narration."

Opening and Closing Entries, etc. Any transaction may be recorded in Journal form, and all that is required to journalize a transaction is to indicate the Ledger account to be debited and the account to be credited, together with a short narration to show the reason for the transaction. The following examples illustrate the method of journalizing transactions of the type indicated above—

(a) *Opening entries.* On 1st June, 19.., J. Brown began business with cash, £450; stock on hand, £1,000. He owed T. Thomas £350.

(b) *Closing entries.* On 31st December, 19.., the following items were among those which made up J. Brown's Trial Balance on that date—

	Dr.	Cr.
	£	£
Purchases a/c	5,000	
Office Expenses a/c	100	
Rent a/c	50	
Discount a/c		25

(c) *Valuation of assets.* On 31st December it was decided to depreciate Machinery a/c, at £500, by 10 per cent per annum.

JOURNAL

Folio 47.

Date	Particulars of a/cs	Folios of Ledg. a/cs affected	Amount debited	Amount credited
(a)			£ s. d.	£ s. d.
Jan. 1	Cash a/c	Led. 41	450 - -	
	Stock a/c	" 42	1,000 - -	
	To Thomas a/c	" 45		350 - -
	" J. Brown's Cap- ital a/c			1,100 - -
	(being the record of assets and liabilities at commencement of business)			

Contd. on p. 179.

JOURNAL—(contd.)

Date	Particulars of a/cs	Folios of Ledg. a/cs affected	Amount debited	Amount credited
(b) Dec. 31	Trading a/c . . . To Purchases a/c . (being transfer of Purchases to Trad- ing a/c)	Led. 71 etc.	£ s. d. 5,000 — —	£ s. d. 5,000 — —
(b) Dec. 31	Profit & Loss a/c . To Office Exs. a/c „ Rent a/c . (being transfer of bal- ances to P. & L. a/c)	„ „ „	150 — —	100 — — 50 — —
(b) Dec. 31	Discount a/c . . . To P. & L. a/c . (being transfer of bal- ance to P. & L. a/c)	„ „	25 — —	25 — —
(c) Dec. 31	Depreciation a/c . To Machinery a/c . (being depreciation of machinery for year at 10% rate)	„ „	50 — —	50 — —

Difference Account. It infrequently happens that a Trial Balance does not agree on account of undiscovered errors or omissions in the accounts. When this happens, but only after an exhaustive check of the accounts, a *Difference a/c* (or *Suspense a/c*, as it is often called) may be opened to record the difference between the two sides of the Trial Balance. This account will remain open only so long as the errors remain undiscovered, but the student will appreciate that *nothing short of a proper balancing of the accounts may be considered as satisfactory*. When they are found, a single or omnibus Journal entry is made, which has the effect of correcting the error(s), and closing the Difference a/c. This Journal entry is posted to the Ledger account(s) containing the error(s) *and* to the Difference a/c in order to put these corrections into effect.

The following example illustrates this—

When W. Jackson closed his books on 31st December, 19.., the Trial Balance did not balance and a Difference a/c, with a credit balance of £46 10s., was opened to record the amount of the difference.

On further examination of his books and Ledgers, the following errors were discovered—

- (1) The Sales Day Book was undercast by £10.
- (2) Sales items had been posted to T. Green's account as £4 19s. 3d. instead of £9 14s. 3d.
- (3) Sales of £18 had been entered in the Sales Returns Book by mistake, but posted correctly to the debit of the personal account in the Sales Ledger.
- (4) A purchase item had been posted to T. Brown's account as £14 5s. instead of £14 15s.

The finding of these errors enabled the two sides of the Trial Balance to be agreed. The Journal entries, preparatory to posting to the accounts concerned, are as follows—

JOURNAL						Folio 12		
Date	TITLE OF ACCOUNT	Folios of Ledger a/cs affected	A/c debited			A/c credited		
			£	s.	d.	£	s.	d.
19.. Dec. 31	<i>Credit.</i> "Sales a/c" (in Particulars col. : by "undercast") Being short-amount not posted to Sales a/c, due to undercast in Sales D. Book	✓				10	—	—
	<i>Debit.</i> G. Green's a/c (in Particulars col. : " To shortage ") Being the amount of shortage in posting from the Sales D. Bk.	✓	4	15	—			
	<i>Credit.</i> Sales Returns a/c (in Particulars col.: " By error in posting ") Being the amount posted in error to this	✓				18	—	—

Contd. on p. 181.

JOURNAL—*contd.*

Date	TITLE OF ACCOUNT	Folios of Ledger a/cs affected	A/c debited			A/c credited		
			£	s.	d.	£	s.	d.
	account from Sales R. Book, due to item being incorrectly entered in Sales Returns Book							
1	<i>Credit.</i> Sales a/c (in Particulars col. : " By omission ") Being the amount omitted from this a/c due to entry made in Sales Returns Book instead of in Sales Day Book	✓				18	-	-
	<i>Credit.</i> T. Brown's a/c (in Particulars col. : " By shortage ") Being the amount of shortage posted to this account from Purchases Day Book)	✓					10	-
	TOTALS		4	15	-	46	10	-
	<i>Debit.</i> Difference a/c (in Particulars col. : " Sundry adjustments ") Being the amount required to cancel the credit entry in the Difference a/c		41	15	-			
			<u>£46</u>	<u>10</u>	<u>-</u>	<u>£46</u>	<u>10</u>	<u>-</u>

The accounts concerned have been opened, with totals assumed as the result of a period's trading, and the adjustments have been posted to them in order to show how the omnibus Journal entry for these corrections is incorporated into the accounts.

Dr.					SALES A/c			Cr.		
					19.. Dec. 31	By	Total posted from Sales Day Bk. (<i>say</i>)		£	s. d.
								J.12	3,750	- -
					" 31	"	Undercast	J.12	10	- -
					" 31	"	Omission	J.12	18	- -

Dr.		G. GREEN'S A/c						Cr.		
19..			£	s.	d.					
Dec. 31	To Total of Sundries (say)	S.D. Bk.	64	—	—					
„ 31	„ Shortage	J.12	4	15	—					

Dr.		SALES RETURNS A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Dec. 31	To Total posted from Sales Returns Bk. (say)		79	—	—	Dec. 31	By Error in posting	J.12	18	—

Dr.		T. BROWN'S A/c						Cr.		
						19..		£	s.	d.
						Dec. 31	By Total of Sundries (say)	P.D. Bk.	75	—
						„ 31	„ Shortage	J.12	10	—

Dr.		DIFFERENCE A/c						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Dec. 31	To Sundry adjustments to cancel Difference.	J.12	41	15	—	Dec. 31	By Amount of Difference in T.B.	J.11	41	15

More About the Bank Account. It sometimes happens that a business man may have insufficient working capital, in the form of cash, for his immediate needs. He may want cash at short notice for the payment of wages, purchase of goods, etc.

He may be able to provide the cash by drawing on his private resources. If, for example, he took £300 from this source, such an addition to his business capital would be recorded in his books by crediting his Capital a/c with £300 and debiting the Cash a/c (bank column) with this amount. The primary record for this transaction would be made in the Journal.

Loan Accounts. Business men who need funds to meet *temporary* requirements for their businesses usually get them from their banks. When granting loans to their customers, banks have to make proper provision for the protection of the funds they lend. They do this by requiring borrowers to transfer some acceptable form of security to them for the period of the loan.

In certain circumstances, a bank might be willing to lend to a customer on his personal security alone—which would entail his signing a promissory note to repay the sum according to the terms of the loan, and also possibly require him to get a third party to guarantee the loan. For all practical purposes, banks nowadays make loans against securities of a more tangible kind, in addition to customers giving their personal

security (i.e. their written promise to repay when called upon to do so). Types of securities on which bankers will lend money are life assurance policies, Government and local authorities' stocks, fully paid-up shares and debentures in limited liability companies marketable on the stock exchange, and title deeds to property. Securities like these are transferred to the bank in order to make the loan or overdraft *secure* from the bank's point of view. The loans are then known as *secured loans* and the securities are referred to as collateral securities. They are, of course, returned to the borrower when the loan is repaid.

The above form of securities pre-supposes the possession of *private* wealth on the part of the business man. When, however, he is not fortunate enough to have any private wealth in the form of cash to finance his business directly or in the form of securities for procuring a bank loan, he may have to offer some of his *business* assets as security for a loan. A *bill of sale* is a document which is sometimes made use of to "secure" assets of this type and, where stock-in-trade is included in such a document, the borrower will usually do all he can to increase his turnover as much as possible so that when the time comes to pay the loan, he can do so out of surplus funds instead of having to make a forced sale of some of his stock-in-trade for this purpose.

Banks also lend money on documentary bills of exchange and on other forms of title deeds to goods. These will be considered in the chapter dealing with bills of exchange.

A bank *loan* is a transaction between a banker and his customer because it is a transfer of *ownership* of a fixed amount of cash from the former to the latter, and therefore has to be recorded in the business man's accounts. As the banker hands over a fixed sum for his customer's use, the former will not be able to make use of it for any other purpose (e.g. lending it to another customer) and so he will charge interest on the *whole* of the loan even though the customer may not make use of all of it.

Suppose that on 1st January, A. Brown obtained a loan of £300 from his banker, against collateral security and was charged interest at 5 per cent p.a., and that the first instalment of interest was paid on 30th June. The entries in H. Brown's accounts would be as shown on p. 184.

CASH A/c

Dr.		CASH A/c				Cr.			
		Led. Fol.	Disct.	Bank		Led. Fol.	Disct.	Bank	
19..	To Balance (say)	✓	£	s.	d.	19..	£	s.	d.
Jan.	" Bank Loan a/c	J.24	97	10	-	June 30	By Bank Loan a/c		
			300	-	-		(half yearly int. to June 30th)		

BANK LOAN A/c (i.e. BANKER'S A/c)

<i>Dr.</i>	BANK LOAN A/c (i.e. BANKER'S A/c)	<i>Cr.</i>
19.. June 30	To Cash a/c . . . ✓	£ 7 s. 10 d. -
	By Cash a/c . . . J.24 „ Bank Interest a/c . J.31 (half-yearly interest)	£ 300 s. - d. -
		£ 7 s. 10 d. -

BANK INTEREST A/c

<i>Dr.</i>	BANK INTEREST A/c			<i>Cr.</i>
19..				
June 30	To Bank Loan a/c . .	J.31	£ 7 10 -	

N.B. For the purpose of illustration, it has been assumed that the interest was paid "gross," i.e. Income Tax was not deducted at the time of payment.

We have made four entries in respect of the half-yearly interest. The first two show that Brown recorded his indebtedness in respect of interest by crediting the Banker's a/c—"Bank Loan a/c"—and debiting Bank Interest a/c. The second two entries record the fact that payment was made to the bank to cancel his indebtedness—Cash a/c credited and Bank Loan a/c debited.

It should be noted that the first two entries, recording Brown's indebtedness, are entered in the Journal and then posted to the accounts concerned.

Overdrafts. As an alternative to the banker loaning a customer a *fixed* amount of cash, an arrangement may be made to enable him to overdraw his Current a/c at the bank so as to meet his day-to-day business requirements, on the understanding that he does not exceed a limit agreed upon by the banker and him; and, furthermore, that any receipts which he pays into his Current a/c shall go towards reducing the day-to-day debit balance in that account. In such circumstances the customer will pay interest only on his fluctuating debit balance (i.e. on the amount overdrawn).

Unlike a loan, *no* transaction takes place when a customer signs a form of agreement to obtain an *overdraft*, because no transfer of ownership of money takes place at that time. The customer will not, therefore, make any entries in his accounts to record the granting of an overdraft. It is only when he begins to draw cheques which cause his Current a/c to have a *debit* balance that interest charges begin to operate. As already mentioned, he pays interest on the amount overdrawn from day to day and not on the full amount he could overdraw if he wished to do so.

A bank notifies a customer of the amount of interest charged on loans and overdrafts by including them in his pass book. When the book is sent to the customer, the latter will post any interest appearing therein to his own accounts. Such postings are made by *crediting* the Cash a/c because he has paid this to his bank by its being deducted from his bank balance, and *debiting* a Bank Interest a/c.

Example

Jan. 1. Cash balance, £20.

„ 7. Arranged an overdraft at bank up to £400.

June 30. Interest charged on overdraft amounted to
£6 3s. 6d.

Dr.	Cr.
CASH A/c	

	Led. Fol.	Disct.	Bank		Led. Fol.	Disct.	Bank
19.. Jan. 1 To Balance .		£	s. d. 20 —	19.. June 30 By Bank Interest a/c . (Int. to June 30)		£	s. d. 6 3

<i>Dr.</i>	BANK INTEREST A/c	<i>Cr.</i>
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[illegible]

More About Cheques. We have previously explained (page 51) that a business man will usually have a Current a/c at his bank and make it a rule to settle his debts by cheques drawn on his account. As there is always a risk of a customer's cheques being stolen, bankers have devised means of preventing or hindering the transfer of forged cheques. The following points continue the explanation of cheques given in Chapter IV.

Order Cheques and Bearer Cheques. According to the Bills of Exchange Act, 1882, which, together with the Bills of Exchange (Crossed Cheques) Act, 1906, and the Bills of Exchange Act (1882) Amendment Act, 1932, states the law regarding cheques and similar documents, a cheque, to be valid, must take the form of a written order to a banker to pay a sum of money on demand to *a specified person* or to *bearer*, without conditions as to payment. Hence the instruction on the face of the cheque regarding payment may be one of two kinds, viz., either (1) "Pay W. Jones *or order*," which specifies payment to him or to a person whom he nominates to receive payment. Such a cheque is known as an *order cheque*; or (2) "Pay W. Jones *or bearer*," which is an instruction to the banker to pay anyone who presents it for payment. A cheque of this kind would be a *bearer cheque*.

The distinction between the two kinds of cheque is that an order cheque must be endorsed by the payee (W. Jones) before the banker will cash it or credit his account. A bearer cheque, however, needs no endorsement, whether it be an open one which can be cashed over the counter of the paying bank or a crossed one that is paid into an account. As order cheques require endorsement, they are safer than bearer cheques and are the kind generally in use. Only the drawer may change an order cheque to a bearer cheque, and he does this by substituting "bearer" for "order," and adding his signature to the alteration.

As regards the drawer, we know that his banker takes the precaution to have a specimen copy of his signature so that the signatures on his cheques may be compared with the specimen copy. He does this because he is liable to his customer for loss of funds if he cashes a cheque which contains the forged signature of the drawer.

While a paying banker must always be ready to recognize a drawer's signature, he cannot be expected to know those of

payees unless they are also his customers. Hence a banker is not liable to a customer or other party to a cheque if he cashes one which contains a forged endorsement.

Open and Crossed Cheques. The main distinction between cheques is in their being either *open cheques* or *crossed cheques*.

An *open* (i.e. *uncrossed*) cheque, whether it be to bearer or order, may be cashed over the counter of the paying bank, whereas a crossed cheque, to bearer or order, has to be credited to a bank account. The object of crossing a cheque is to make it more difficult for an unauthorized person to cash it. As a crossed cheque is paid into an account, the paying bank can trace its transfer, because the address stamp of the collecting banker on the cheque shows the branch bank that received payment, and the endorsement identifies the person whose account is credited with the funds.

The method of payment by crossed cheque is now in general use, on account of its increased safety, and all that the drawer or payee has to do in order to indicate the method of payment is to draw two parallel lines across the face of the cheque. Any payee who receives a cheque which has not been crossed (i.e. an open cheque) may cross it if he so desires.

Example of Crossed Cheque.

No. B/291740.	London, 4 th March, 19..
National Provincial Bank, Ltd. ELTHAM BRANCH.	
<div style="border: 1px solid black; padding: 2px; display: inline-block;">2d. stamp</div>	
Pay F. C. SQUIRE.....or order.	
Seven pounds, four shillings and threepence.	
£7—4—3.	J. C. JONES

Not negotiable

The above is known as a *general* crossing. In addition to the two lines, the drawer may be asked by the payee, as a *special* safety measure to write in the name of the branch bank where the latter has his account, so that the cheque may be paid into that account and no other. Such a crossing is then known as a *special* crossing. The two parallel lines,

with or without the name of the collecting bank, constitute the crossing, but it is also customary to add the words *not negotiable*, as a further safety measure.

To "negotiate" means to transfer value to another; as when a person transfers a cheque to a person to settle a debt. The two words "not negotiable" on a cheque do not, however, prevent it from being transferred, but it does have the effect of discouraging anyone but the original payee from accepting it because *no one* who takes a cheque so marked can get a better title of ownership to it than the person from whom he takes it had. For example, if "A" received a stolen cheque from "B," "A" could not claim its value although he took it in the ordinary course of his business and did not know it was stolen.

As mentioned, the two parallel lines, with or without the words "not negotiable," constitute a *general* crossing because it is a general instruction to a banker to pay the cash into an account and not over the counter. A special crossing takes the same form as a general crossing, with the addition of the name of the banker to whom the cheque will be handed for collection. The following is an example of a special crossing—

& Co.
National and Provincial Bank
Eltham Branch
Not negotiable

As a further safety measure, the drawer or payee may include in the crossing the words "account payee only," or include the payee's name in the wording. For example, if a cheque were drawn—"Pay A. B. Wilks or order," such a crossing would read—

a/c payee only	or	a/c A. B. Wilks only
Not negotiable.		Not negotiable

Such an addition to a general crossing would convert it into a special crossing. A collecting banker is the agent of the payee, and so he is the one who would see that the direction given in the special form of crossing was carried out. A,

banker's failure to do so would in all probability lay him open to a charge of having acted negligently.

Endorsements. Like crossings, endorsements are of two kinds—general and special.

A *General Endorsement* is one where the payee writes *only* his signature on the back of the cheque. A general endorsement turns an order cheque into a bearer cheque, and such a cheque would afterwards require no further endorsement, even though it might be transferred to another holder.

A *Special Endorsement* is one which names the person to whom a cheque is to be paid. If, for example, a cheque is drawn to "W. Watkins or order," and it is endorsed—

" Pay to T. White or order
W. Watkins."

Such endorsement would be a special one. It would have to be endorsed by T. White before he could pay it into his account or negotiate it, and he would do this by placing his signature under that of Watkins.

An example of a payee preferring to receive a bearer cheque to an order cheque may be instanced by a corporation or company whose cashiers or other officials are not given power to endorse cheques on behalf of their corporation, etc. If a customer usually paid his accounts by cheque, the corporation might ask him to draw bearer cheques, as these would not require endorsement, and so would serve their purpose. In order to assure the safety of cheques of this

16th June, 19..	
THE NATIONAL PROVINCIAL BANK, LTD. ELTHAM BRANCH	
Pay The Western Polytechnic or bearer Twenty-five pounds ten shillings— £25—10—0.	<div style="border: 1px solid black; border-radius: 50%; width: 60px; height: 60px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <div style="text-align: left; padding: 5px;">2d STAMP</div> </div> <div style="text-align: right; margin-top: 10px;">F. A. JONES</div>

kind, the drawer would be asked to cross each specially to the branch bank which kept the corporation's account and *also* include the name of the payee (i.e. the corporation) in the crossing, as shown on p. 190.

Dishonoured Cheques. If the holder of a cheque (i.e. drawee, etc.) pays it into his Bank a/c and his account is credited with the amount, the cheque is said to be "honoured." If, on the other hand, the drawer's banker refused to cash it, the cheque would be "dishonoured." If this happened, the drawer's banker would return it to the payee's banker, marking the cheque "refer to drawer." The latter would hand it to the payee so that he could ascertain from the drawer why the cheque had been dishonoured. It might be that the drawer had insufficient funds at his bank to meet the cheque or he had instructed his bank for some reason or other to stop payment of the cheque.

When a cheque is paid into a bank for collection, the bank, as a matter of practice, at once credits the holder's Current a/c in good faith that the cheque will be honoured. His bank then sends it to the paying banker and, if the cheque is returned dishonoured, the collecting banker will have to debit the holder's Current a/c in order to reverse the previous credit entry. Hence the drawee will have to do the same thing as regards the drawer. When the latter sent the cheque the drawee would credit the drawer's account, thereby cancelling a debt. As soon as the drawee ascertains that the cheque is a bad one, the drawer will become a debtor again and his account will have to be debited.

The following example shows this—

On 1st Jan. A. Brown owed T. Black £50. On 10th Jan. he sent a cheque for this amount, but on 13th Jan. it was dishonoured on account of lack of funds. Brown was unable

THE ACCOUNTS IN BLACK'S LEDGER

Dr.		A. BROWN'S A/c						Cr.		
		£	s.	d.			£	s.	d.	
19..										
Jan.	1	To Balance b/d	50	-	Jan.	10	By Cash a/c	50	-	
"	13	" Cash a/c (dishonoured cheque)	50	-	May	1	" Cash a/c	37	10	
					"	1	" Bad Debts a/c	12	10	
		£ 100	-	-			£ 100	-	-	

THE ACCOUNTS IN BLACK'S LEDGER

(Continued)

Dr.		CASH A/c										Cr.			
		Disct.			Bank					Disct.			Bank		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
19..								19..							
Jan. 10	To A. Brown's a/c . . .				50	-	-	Jan. 13	By A. Brown's a/c (dis-honoured cheque) .				50	-	-
May 1	„ A. Brown's a/c . . .				37	10	-								

Dr.		BAD DEBTS A/c										Cr.		
19..			£	s.	d.									
May	I	To A. Brown's a/c	12	10	-									

to pay the full amount, and on 1st May Black accepted a cheque for 75 per cent of the amount due in full settlement of the account. Brown's a/c was then closed by the remainder being written off as a *bad debt*.

At the end of the financial year the Bad Debts a/c is closed by transferring the balance to the Profit & Loss a/c.

When Black agreed to settle the debt on a 75 per cent basis the account was closed and Brown would no longer be legally bound to repay any more, even though he might be in a good position to do so later on. If, however, at some future time, Brown repaid the balance that was cancelled, the entries in Black's books to record this would be made by crediting the Bad Debts a/c (thereby reducing the amount of this kind of loss) and debiting the Cash a/c.

Insolvency and Bankruptcy. Insolvency is a term applied to a business that cannot pay its debts as they become due for settlement. This state of affairs may be caused by too much of its working capital being wasted in unsaleable stocks and in old book debts that cannot be liquidated. The resulting shortage of cash is a serious drag on trading and also prevents the prompt settlement of creditors' claims. This usually leads to the business being unable to buy goods on credit terms. The stagnation which this brings about frequently leads to insolvency and, later on, to bankruptcy in the case of a private firm or liquidation in the case of a limited company.

Insolvency is usually followed by one or more of the creditors applying to the debtor's local County Court for bankruptcy proceedings to be taken against the debtor with a view to *all* the creditors getting an *equitable* settlement of their claims. The debtor himself may, if he desires, inform the Court of his inability to pay his debts and ask the Court to take the necessary action on behalf of all his creditors. If the Court agrees to his application, it issues an order, called a *Receiving Order*, and appoints an official, known as an *official receiver*, who will receive or take charge of the debtor's assets on behalf of the creditors so that the latter, if they think fit, may decide as to the disposal of the assets. In such cases the Receiver arranges for their disposal and distributes the proceeds equitably among the creditors concerned. Official rules are prescribed setting out the order in which the various creditors' claims are to be settled.

Bank Reconciliation Statement. It is essential for a business man to be able to command a ready and sufficient supply of working capital, in the form of cash at the bank, so that his business may function smoothly and efficiently, and so he will regularly refer to his Cash a/c to tell him whether his bank balance is adequate for his needs.

Pass Book. As we know, a bank keeps a separate Ledger account for each customer and periodically sends him an up-to-date copy of it so that he may compare the bank's record with his own Cash a/c. For this purpose the bank uses a pass book. Nowadays, this is often composed of loose sheets on account of the fact that a good deal of bank accounting is done with the help of accounting machines. A bank's customers are always at liberty to inspect their pass books and many do so regularly in order to check the accuracy of their Cash a/cs. If the balances in the pass book and Cash a/c can be agreed when these periodical checks are made, the business man will record the fact in his Cash Book, for reference purposes. It frequently happens that their balances are dissimilar, not because there are any inaccuracies in either of the books, but because—(1) the banker has recorded one or more transactions in the pass book since it was previously inspected by the business man and so the corresponding entries have not yet been made in the business Cash a/c ; or, alternatively, because (2) the business man has recorded transactions in his Cash a/c

and these transactions have not yet been carried out *so far as the banker is concerned*. It will not be until such transactions have affected his account at the bank that the banker will record them in his pass book. For example, when A pays B by cheque, the transaction will not be completed until the cash is withdrawn from A's account at the bank and transferred to B's account. Nevertheless, A will credit his own Cash a/c at the time when he dispatches the cheque to B, although the transaction will not be recorded in his pass book until B presents the cheque for collection—and some time may elapse before he does this.

When the business man has allowed for these omissions, he can prepare a statement—called a *Bank reconciliation statement*—to show that the pass book balance can be reconciled or agreed with the Cash a/c balance. The following example illustrates the method of setting out such a statement.

In this example we have supposed that the customer (W. Palmer) asked his bank to “make up” his pass book to 31st March, and that the balance amounted to £140 9s. 4d., whereas the balance in his Cash a/c was £136 12s. In comparing the pass book with the Cash Book, Palmer noticed that—

(a) Cheques sent to Jackson and Watkins on 27th and 29th March respectively had not yet been taken to the bank for payment and so had not been entered in the pass book. As these amounts had not yet been withdrawn, the pass book balance would be greater than that of the Cash a/c in respect of these two items. In adjusting the pass book balance to the Cash Book balance, therefore, these items will have to be *deducted* from the pass book balance.

(b) The bank had charged Palmer's bank account, *as shown by the pass book*, with the cost of a cheque book and also deducted £14 7s. from the account for a dishonoured cheque, and £1 7s. 6d. commission for keeping the account, etc. Palmer had not yet had an opportunity of making corresponding entries in his Cash a/c in respect of these charges. As they have been deducted from the pass book balance *only*, that balance will be *less* than that of the Cash a/c in respect of these three items. As the practice is to bring the pass book balance into line with that of the Cash a/c, such items will have to be *added* to the pass book balance when making the reconciliation.

Dr.

BUSINESS CASH A/c

Cr.

Date	Particulars	Led. Folio	Discount	Bank	Date	Particulars	Led. Folio	Discount	Bank
19.. 1	To Balance .	.	£	s. d.	19.. 2	By Petty Cash a/c .	.	£	s. d.
Mar. 7	" Cash Sales a/c .	.		75 - -	Mar. 6	" T. Jones a/c .	.	20 - -	£ s. d.
" 8	" J. Robbins a/c .	.		27 - -	" 15	" Borough Cl. a/c (Electy.)	.	14 14 -	14
" 18	" Cash Sales a/c .	.		24 10 -	" 19	" S. Jackson a/c .	.	3 10 -	10
" 21	" T. Wilson a/c .	.	15	46 - -	" 21	" Cash Purchases a/c	.	4 7 -	7
" 26	" H. Cole a/c .	.		6 15 -	"	(M. Jones)	.	4 - -	
" 27	" Cash Sales a/c .	.		14 7 -	" 23	" Western Garage a/c	.	4 10 -	10
" 30	" H. Soames a/c .	.		43 7 -	"	(Repairs)	.	13 10 -	10
				6 - -	" 25	" J. Makin a/c (Rent)	.	26 - -	
					" 27	" S. Jackson a/c .	.	15 1 -	1
					" 29	" T. Watkins a/c .	.	4 15 -	15
					" 31	" Balance c/d .	.	136 12 -	12
April 1	To Balance .	.	£	s. d.				£ 242 19 -	19
				242 19 -				136 12 -	

BANK PASS BOOK OF W. PALMER

Date	Particulars	Debit £ s. d.	Credit £ s. d.	BALANCE OF A/c	
				Dr. or Cr.	£ s. d.
19..					
Mar. 1	Balance			Cr.	75 - -
" 2	Petty Cash	20 - -			
" 7	T. Jones	14 14			
" 7	Cash		27 - -		
" 8	J. Robbins		24 10 -		
" 17	Borough Council				
" 18	Cash	3 10 -			
" 21	S. Jackson		46 - -	Cr.	134 6 -
" 21	T. Wilson	4 7 -			
" 23	M. Jones		6 15 -		
" 24	Western Garage	4 10 -			
" 26	H. Cole	13 10 -			
" 27	J. Makin		14 7 -	Cr.	133 1 -
" 27	Cash	26 - -			
" 27	Cheque Book		43 - -		
" 30	H. Soames	4 2 -			
" 30	H. Cole (dishonoured cheque)		6 7 -		
" 31	Bank Charges	14 7 -		Cr.	140 9 4
April 1		1 6 -			

Bank Reconciliation Statement, prepared on 31st March, 19.., and recorded in Palmer's Cash Book.

	£	s.	d.	£	s.	d.
<i>Pass Book balance</i> (31st March, 19..)				140	9	4
<i>Less : Cheques dispatched to customers but not yet cashed—</i>						
Jackson	15	1	—			
Watkins	4	15	—			
				19	16	—
<i>Add : Charges, etc., entered in Pass Book but not yet appearing as credit entries in the Cash a/c—</i>				120	13	4
Cheque book		4	2			
H. Cole (dishonoured cheque)	14	7	—			
Bank charges, etc.	1	7	6			
				15	18	8
Agreeing with Cash Book balance			£	136	12	—

NOTE.—When Palmer records the last three transactions in his accounts, a double entry will have to be made in respect of each, in order to keep the accounts in balance, i.e.—

Cheque book : Credit the Cash a/c and debit Bank charges a/c.

H. Cole (dis. cheque) : Credit the Cash a/c and debit H. Cole's a/c.

Bank charges : Credit the Cash a/c and debit Bank Charges a/c.

EXERCISE

On 1st January, 19.., the Ledger balances of J. Wilkinson, decorator, etc., were as follows—

Cash at bank, £102; Plant and Equipment a/c, £300; Premises a/c, £950; Stocks of Stores and Materials a/c, £420; partly completed jobs (value of work done to date), £95. Debtors: F. Wilks, £35; G. Weeks, £26.

The transactions during January were as follows—

- Jan. 1. Obtained loan from bank, £200.
 „ 2. Obtained second-hand paper trimming machine from F. Jones in exchange for cheque, £20, and decorating materials, £10.
 „ 3. Received invoice from R. Kettner for materials supplied, £17 10s.
 „ 4. F. Wilks settled his account by cheque, deducting 2% discount.
 „ 7. Drew cheque for petty cash, £20, and paid wages, £9 10s.
 „ 8. Sold paint and other materials to F. Wilks for £28, less 10% trade discount.
 „ 11. Completed job No. 47 for P. Robinson and sent him account for £40.
 „ 13. Did repair job No. 70 for Sims & Co., and rendered account, £4 10s.
 „ 14. Paid wages from petty cash, £9.
 „ 15. Cash sales of paints, etc., for fortnight, paid to bank, £36 10s.
 „ 21. Completed job No. 48 for M. Mather and sent him account, £50.
 „ 23. Jones & Co. agreed to accept Wilkinson's estimate for repair work, value £45.
 „ 24. Received cheque from G. Weeks for £25, in settlement of his account.
 „ 26. G. Weeks's cheque returned by bank, dishonoured.
 „ 31. Bank pass book revealed that following charges had been made—Cheque book, 8s. 4d.; commission and charges, £1 10s.
 Wilkinson included these in his accounts.
 „ 31. Value of stocks of stores, etc., £400, and of partly completed jobs £20

JOURNAL

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Date	TITLE OF ACCOUNT	Led. Fol.	Dr.		Cr.	
			£	s.	£	d.
19..						
Jan. 1.	OPENING ENTRIES: Cash a/c . . . Dr. Plant & Equipment a/c . . . Premises a/c . . . Stores & Materials a/c . . . Partly Completed Jobs a/c . . . F. Wilks a/c . . . G. Weeks a/c . . . To J. Wilkinson's Capital a/c Being Assets and Liabilities of the business on 1st January	C.B. 75 L. 69 L. 70 L. 71 L. 72 L. 75 L. 76 L. 68	102 300 950 420 95 35 26	- - - - - - -	- - - - - - -	- - - - - - -
					1,928	-
" 2.	Plant & Equipment a/c . Dr. To Cash Sales a/c . . . " Cash a/c . . . Being record of exchange of materials and cash for paper-trimming machine	L. 69 L. 85 C.B. 75	30	- - -	10 20	- - -
" 26.	G. Weeks a/c . . . Dr. To Cash a/c . . . " Discount . . . Being G. Weeks's cheque returned by bank, dishonoured	L. 76 C.B. 75 C.B. 75	26	- - -	25 1	- - -
" 31.	CLOSING ENTRIES: Trading a/c . Dr. To Stores & Materials a/c . . . " Partly Completed Jobs a/c . . . " Credit Purchases a/c . . . " Wages a/c . . . Being transfer of these items to Trading a/c	L. 89 L. 71 L. 72 L. 81 L. 74	551	- - - - -	420 95 17 18	- - 10 10 - - - -

JOURNAL (contd.)

Folio 18

Date	TITLE OF ACCOUNT	Led. Fol.	Dr.			Cr.		
			£	s.	d.	£	s.	d.
19..	<i>Closing entries (contd.):</i>							
Jan. 31.	Completed Jobs a/c . . Dr.	L. 82	90	-	-			
	Cr. Sales of Materials a/c . . "	L. 83	25	4	-			
	Cash Sales of Materials a/c . . "	L. 85	46	10	-			
	Repairs Executed a/c . . "	L. 84	4	10	-			
	To Trading a/c . .	L. 89				166	4	-
	Being transfer of these items to Trading a/c							
" 31.	Stores & Materials a/c . . Dr.	L. 71	400	-	-			
	To Trading a/c . .	L. 89				400	-	-
	Being Stock on hand brought into accounts as above							
" 31.	Partly Completed Jobs a/c . . Dr.	L. 72	20	-	-			
	To Trading a/c . .	L. 89				20	-	-
	Being value of work on hand brought into the above accounts							
	Trading a/c . . Dr.	L. 89	35	4	-			
	To Profit & Loss a/c . .	L. 90				35	4	-
	Being gross profit transferred to Profit & Loss a/c							
" 31.	Profit & Loss a/c . . Dr.	L. 90	2	12	4			
	To Bank Charges a/c . .	L. 87				1	18	4
	" Discount a/c . .	L. 88				-	14	-
	Being transfer of these items to Profit & Loss account							
" 31.	Profit & Loss a/c . . Dr.	L. 90	32	11	8			
	To J. Wilkinson's Capital a/c	L. 68				32	11	8
	Being transfer of net profit to Capital a/c							

PURCHASES DAY BOOK

Folio 84

Date	Invoice No.	Supplier	Particulars	Ledger Folio	Total of invoice		Materials (for credit Purch. a/c)		Expenses a/c
19..					£	s.	£	s.	d.
Jan. 3	47	R. Kettner	Materials	L.78	17	10	17	10	-
" 31	Total of sundries for January concerned		posted to accounts		£17	10	£17	10	-
							L. 81		

SALES DAY BOOK

Folio 90

Date	Invoice No. etc.	Customer	Particulars	Ledger Folio	Total of Invoice		Cr. Sales of Materials a/c		Jobs completed a/c	Repairs executed a/c
19..					£	s.	£	s.	£	s.
Jan. 8	143	F. Wilks	Materials	L.75	25	4	25	4	-	-
" 11	70	P. Robinson	Job No. 47	L.77	40	-	40	-	-	-
" 13	85	Sims & Co.	Repair Job 70	L.79	4	10	50	-	-	10
" 21	71	M. Mather	Job No. 48	L.80	50	-	-	-	-	-
" 31	Total of sundries for January concerned				£119	14	£25	4	£90	10
							L.83		L.82	L.84

CASH BOOK

Dr.

		Folio	Discount			Bank				Folio	Discount			Bank		
			£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
19..	To Balance .	J.17				102	-	-	19..	By Plant Equipment a/c (part exchange)	J.17			20	-	-
Jan. 1									Jan. 2	" Petty Cash a/c .	L.86			20	-	-
" 1	" Bank Loan a/c .	L.73				200	-	-	" 7	"						
" 4	" F. Wilks a/c .	L.75							" 26	" G. Weeks a/c (cheque dis- honoured)	J.17	1	-	25	-	-
" 15	" Cash Sales a/c .	L.85				36	10	-	" 31	" Bank Charges a/c (cheque book)	L.87				8	4
" 24	" G. Weeks a/c .	L.76				25	-	-	" 31	" Bank Charges a/c (commission)	L.87			1	10	-
" 31	" Total discount for Jan., posted to Discount a/c .	L.88	1	14	-				" 31	" Total discount for Jan., posted to Discount a/c .	L.88	1	-			
									" 31	" Balance c/d .				330	17	8
Feb. 1	To Balance b/d .					£ 397	16	8						£ 397	16	-

LEDGER A/cs

Dr.			J. WILKINSON'S CAPITAL A/c						Folio 68 Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Balance c/d		1,960	11	8	Jan. 1	By Balance	J.17	1,928	-	-
						" 31	" Net profit transfrd. from P. & L. a/c	J.18	32	11	8
			£ 1,960	11	8				£ 1,960	11	8
						Feb. 1	By Balance b/d		1,960	11	8

Dr.			PLANT & EQUIPMENT A/c						Folio 69 Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance	J.17	300	-	-	Jan. 31	By Balance c/d		330	-	-
" 2	" Sundries	J.17	30	-	-						
			£330	-	-				£330	-	-
Feb. 1	To Balance b/d		330	-	-						

Dr.			PREMISES A/c						Folio 70 Cr.		
19..			£	s.	d.						
Jan. 1	To Balance	J.17	950	-	-						

Dr.			STORES & MATERIALS A/c						Folio 71 Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance	J.17	420	-	-	Jan. 31	By Transfer to Trading a/c	J.17	420	-	-
			£420	-	-				£420	-	-
Feb. 1	To Trading a/c	J.18	400	-	-						

Dr.			PARTLY FINISHED JOBS A/c						Folio 72 Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance	J.17	95	-	-	Jan. 31	By Transfer to Trading a/c	J.17	95	-	-
			£95	-	-				£95	-	-
Feb. 1	To Trading a/c	J.18	20	-	-						

Dr.			BANK LOAN A/c						Folio 73 Cr.		
						19..			£	s.	d.
						Jan. 1	By Cash a/c	C.B. 75	200	-	-

Dr.			WAGES A/c			Folio 74 Cr.				
19..			£	s.	d.	19..		£	s.	d.
Jan. 7	To Petty Cash a/c	L.86	9	10	-	Jan. 31	By Transfer to Trading a/c	J.17	18	10
" 14	" Petty Cash a/c	L.86	9	-	-					
			£18	10	-			£18	10	-

Dr.			F. WILKS A/c			Folio 75 Cr.					
19..			£	s.	d.	19..		£	s.	d.	
Jan. 1	To Balance	J.17 S.D.B.	35	—	—	Jan. 4	By Cash	C.B. 75	34	6	—
„ 8	„ Goods	90	25	4	—	„ 4	„ Discount	C.B. 75		14	—
						„ 31	„ Balance c/d		25	4	—
			<u>£60</u>	<u>4</u>	<u>—</u>			<u>£60</u>	<u>4</u>	<u>—</u>	
Feb. 1	To Balance b/d		25	4	—						

Dr.			G. WEEKS A/c			Folio 76 Cr.					
19..			£	s.	d.	19..		£	s.	d.	
Jan. 1	To Balance .	J.17	26	-	-	Jan. 24	By Cash .	C.B. 75	25	-	-
" 26	" Cash and dis- count (dis- hon'd cheque)	J.17				" 24	" Discount .	C.B. 75	1	-	-
			26	-	-	" 31	" Balance c/d .		26	-	-
			<u>£52</u>	-	-			<u>£52</u>	-	-	-
Feb. 1	To Balance b/d .		26	-	-						

Dr.			P. ROBINSON A/c			Folio 77 Cr.		
19..			£	s.	d.			
Jan. 11	To Sundries	S.D.B. 90	40	-	-			

Dr.				R. KETTNER A/c				Folio 78 Cr.				
						19..				£	s.	d.
						Jan. 3	By Sundries	P.D.B.		17	10	-
								84				

Dr.			SIMS & Co. A/c			Folio 79 Cr.		
19..			£	s.	d.			
Jan. 13	To Sundries	S.D.B. 90	4	10	-			

WORKED EXERCISE

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Dr.		M. MATHER A/c				Folio 80		Cr.	
19..			£	s.	d.				
Jan. 21	To Sundries	S.D.B. 90	50	-	-				

Dr.		CREDIT PURCHASES A/c						Folio 81		Cr.	
19..			£	s.	d.	19..		£	s.	d.	
Jan. 31	To Total of Credit purchases for Jan., from P.D. Bk.	P.D.B. 84	17	10	-	Jan. 31	By Transfer to Trading a/c	J.17	17	10 -	
			<u>17</u>	<u>10</u>	<u>-</u>			<u>17</u>	<u>10</u>	<u>-</u>	

Dr.		COMPLETED JOBS A/c (SALES DAY BOOK RECORD)						Folio 82 Cr.			
19..			£	s.	d.	19..		£	s.	d.	
Jan. 31	To Transfer to Trading a/c	J.18	90	-	-	Jan. 31	By Total of completed jobs for Jan. from	S.D.B. 90	90	-	-
			<u>£90</u>	<u>-</u>	<u>-</u>				<u>£90</u>	<u>-</u>	<u>-</u>

Dr. CREDIT SALES OF MATERIALS A/c (SALES DAY BOOK RECORD) Folio 83 Cr.											
19..			£			19..			£		
Jan. 31			s. d.			Jan. 31			s. d.		
To Transfer to						By Totals of Sales			S.D.B.		
Trading a/c			J.18			for Jan. from.			90		
			25 4 -						25 4 -		
			<u>£25 4 -</u>						<u>£25 4 -</u>		

Dr.		REPAIRS EXECUTED A/c (SALES DAY BOOK RECORD) Folio 84 Cr.									
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c	J.18	4	10	-	Jan. 31	By Total of repairs executed for January	S.D.B. 90	4	10	-
			<u>£4</u>	<u>10</u>	<u>-</u>				<u>£4</u>	<u>10</u>	<u>-</u>

Dr.		CASH SALES OF MATERIALS A/c					Folio 85 Cr.				
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Transfer to Trading a/c	J.18	46	10	-	Jan. 2	By Plant & Equip- ment a/c (part exchge)	J.17	10	-	-
						" 15	" Cash a/c	C.B.75	36	10	-
			£46	10	-				£46	10	-

Dr.			PETTY CASH A/c			Folio 86			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 7	To Cash a/c	C.B.75	20	-	-	Jan. 7	By Wages a/c	L.74	9	10	-
						" 14	" Wages a/c	L.74	9	-	-
						" 31	" Balance c/d		1	10	-
			£20	-	-				£20	-	-
Feb. 1	To Balance b/d		1	10	-						

Dr.			BANK CHARGES A/c			Folio 87			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Cash a/c (cheque book)	C.B.75		8	4	Jan. 31	By Transfer to P. & L. a/c	J.18	1	18	4
" 31	" Cash a/c (commission).	C.B.75	1	10	-						
			£1	18	4				£1	18	4

Dr.			DISCOUNT A/c			Folio 88			Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Total of discent. (Dr.) for Jan.	C.B.75	1	14	-	Jan. 31	By Total of discent for Jan.	C.B.75	1	-	-
						" 31	" Balance trans- ferred to P. & L. a/c	J.18		14	-
			£1	14	-				£1	14	-

TRIAL BALANCE AS ON 31ST JANUARY, 19..

TITLE OF ACCOUNT						Dr.			Cr.		
						£	s.	d.	£	s.	d.
J. Wilkinson's Capital a/c	.	.	.	.	.				1,928	-	-
Plant and Equipment a/c	.	.	.	.	.	330	-	-			
Premises a/c	.	.	.	.	.	950	-	-			
Stores of Materials a/c	.	.	.	.	.	420	-	-			
Partly Finished Jobs a/c	.	.	.	.	.	95	-	-			
Bank Loan a/c	.	.	.	.	.				200	-	-
F. Wilks a/c	.	.	.	.	.	25	4	-			
G. Weeks a/c	.	.	.	.	.	26	-	-			
Cash a/c	.	.	.	.	.	330	17	8			
P. Robinson a/c	.	.	.	.	.	40	-	-			
R. Kettner a/c	.	.	.	.	.				17	10	-
Sims & Co.	.	.	.	.	.	4	10	-			
M. Mather a/c	.	.	.	.	.	50	-	-			
Credit Purchases a/c	.	.	.	.	.	17	10	-			
Completed Jobs a/c	.	.	.	.	.				90	-	-
Credit Sales of Materials a/c	.	.	.	.	.				25	4	-
Repairs Executed a/c	.	.	.	.	.				4	10	-
Cash Sales of Materials a/c	.	.	.	.	.				46	10	-
Petty Cash a/c	1	10	-			
Bank Charges a/c	1	18	4			
Discount a/c						
Wages a/c	18	10	-			
						£ 2,311	14	-	2,311	14	-

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	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Transfers from—							By Transfers from—						
Stores & Material a/c	420	—	—				Completed Jobs a/c	90	—	—			
Partly Completed							Cr. Sales of Materi-						
Jobs a/c	95	—	—				als a/c	25	4	—			
				515	—	—	Repairs Exctd. a/c	4	10	—			
Credit Purchases a/c				17	10	—					119	14	—
Wages a/c				18	10	—	Cash Sales of Materi-				46	10	—
„ Gross profit transfer'd							als a/c						
to P. & L. a/c				35	4	—	„ Stocks on hand on						
							31st Jan., 19..—						
							Stores of Mat. a/c	400	—	—			
							Partly Completed						
							Jobs a/c	20	—	—			
											420	—	—
											£ 586	4	—
				£ 586	4	—							

	£	s.	d.		£	s.	d.
To Transfers from—				By Gross Profit transfrd.			
Bank Charges a/c .	1	18	4	from Trading a/c .	35	4	—
Discount a/c .		14	—				
Net profit transferred							
to Capital a/c .	32	11	8				
	<u>£35</u>	<u>4</u>	<u>—</u>		<u>£35</u>	<u>4</u>	<u>—</u>

LIABILITIES						ASSETS							
	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
J. Wilkinson's Capital a/c (as at 1st Jan. 19..)	1,928	-	-				Business Premises .				950	-	-
Add net pr'ft for Jan.	32	11	8				Plant & Equipment .				330	-	-
				1,960	11	8	Partly completed jobs				20	-	-
Bank Loan .				200	-	-	Stocks of materials,						
Creditor: R. Kettner				17	10	-	etc. .				400	-	-
							Sundry debtors						
							(total of) .				145	14	-
							Cash at Bank .	330	17	8			
							Petty Cash .	1	10	-			
											332	7	8
				<u>£ 2,178</u>	<u>1</u>	<u>8</u>					<u>£ 2,178</u>	<u>1</u>	<u>8</u>

EXERCISES

No. 1

The following was the Balance Sheet of G. Hicks, a furniture dealer—
BALANCE SHEET AS AT THE 31ST DECEMBER, 19..

<i>Liabilities</i>		<i>Assets</i>	
	£		£
Capital—		Premises	1,100
At 1st Jan.	1,843	Fixtures & Fittings	150
Add profit for year	178	Stock	822
	—		2,021
Loan from P. Jones		Sundry debtors—	
Sundry creditors—		L. Johnson	140
W. Abbot	120	K. Billingham	70
R. Green	76		—
	—		210
	196	Cash at Bank	395
		Cash in Hand	40
			—
			435
			—
	<u>£2,717</u>		<u>£2,717</u>

His order book shows that during January, 19.., he ordered and received delivery on credit of the following goods for re-sale—

- Jan. 5. From W. Abbot, 5 sideboards at £14 each, less 10% trade discount.
 „ 14. From G. Robinson, 2 bedroom suites at £40 each, less 15% trade discount.
 „ 20. From R. Green, 3 dining-room suites at £35 each, less 10% trade discount, and 20 kitchen chairs at £1 5s. each, less 20% trade discount.

Other transactions during January were as follows—

- Jan. 9. Sold furniture for cash £62 10s. ; cash banked same day.
 „ 12. Purchased new fixtures for showroom and paid for them by cheque, £20.
 „ 14. L. Johnson paid by cheque the amount owing by him, less 2½% cash discount, which was allowed.
 „ 21. Sold to H. Falconer on credit, furniture, and sent invoice for £180.
 „ 23. Found 2 kitchen chairs purchased from R. Green received in a damaged condition. R. Green agreed to make an allowance of 10s. each.
 „ 25. K. Billingham paid by cheque £50, in partial settlement of his account.
 „ 31. Paid by cheque, one month's interest on loan at 6% per annum.
 „ 31. Paid from office cash, wages £15, sundry office expenses, £2 15s.
 „ 31. On an examination of the bank pass book found that 10s. and 4s. 2d. had been charged for bank commission and a cheque book, respectively.

Value of stock on hand at 31st January was £905.

Open up a set of books for Hicks and record therein his position on the 1st January, 19.., and his transactions for January, 19..

Use the proper subsidiary books to enter the transactions and post from these to the Ledger Balance the Accounts, and draw up the Balance Sheet as at the 31st January, 19..

Answer : Trial Balance totals, £3,205.

Gross profit, £81.

Net profit, £56 10s. 10d.

Balance Sheet totals, £3,018 0s. 10d.

No. 2

The financial position of Geo. Trantum on the 1st February was as follows—

Cash at bank, £990 ; cash in hand, £85 ; stock, £1,500. Creditor : P. Maynard, £120. Debtors : L. Wiseman, £75 ; V. Nunn, £65. Premises, £600 ; Fixtures and fittings, £150 ; Capital, £3,345.

Open books of account for Geo. Trantum to record his position and enter the following transactions—

- Feb. 6. Cash takings paid into bank, £120 10s.
 „ 8. Paid (direct) wages in cash, £20.
 „ 12. Sold goods on credit to V. Nunn, £57 10s.
 „ 14. Purchased new van £250, and paid by cheque.
 „ 15. Purchased new premises £790, and paid by cheque.
 „ 15. Obtained loan from bank of £500 at 5% per annum.
 „ 19. Paid P. Maynard amount of his account, deducting 2½% cash discount ; cheque sent.
 „ 20. Paid (direct) wages in cash, £25 10s.
 „ 26. Sold goods on credit as follows—
 L. Wiseman, £370, less 10% trade discount ;
 P. Johnson, £215, less 10% trade discount.
 „ 28. Bank charged interest on loan for half month and entered the amount in the bank pass book.

Take out a Trial Balance. Prepare Trading and Profit and Loss a/cs, and Balance Sheet as at 28th February.

Stock on hand at that date, £962.

Answer : Trial Balance totals, £4,552 10s.

Gross profit, £121.

Net profit, £122 19s. 2d.

Balance Sheet totals, £3,967 19s. 2d.

No. 3

From the following list of liabilities and assets, find W. Benson's capital as at 1st July. Make the appropriate Journal entry to open a set of books on the 1st July, and post from the Journal to the Ledger Account.

Liabilities :

Creditors—

	£	s.	d.
R. Smith	23	17	6
L. Greenwood	42	17	6
F. Thomson	33	7	6

<i>Assets :</i>	£	s.	d.
Debtor—G. Pearson	25	17	6
Cash in hand	20	—	—
Cash at bank	162	10	6
Stock on hand	750	—	—
Shop premises	1,100	—	—
Shop fittings	150	—	—
Delivery van	122	—	—

The following transactions were made and are to be entered in the books of account—

	£	s.	d.	
July 5. Sold goods to G. Pearson	130	10	—	
„ 9. Paid wages from office cash	4	—	—	} Charge to P. & L. Account
„ 12. Bought petrol and oil for delivery van and paid from office cash		11	6	
„ 15. Purchased goods for cheque	50	—	—	
„ 17. Paid R. Smith's account by cheque.				
„ 20. Paid L. Greenwood's account by cheque.				
„ 22. Bought trailer for delivery van on credit from The New Era Garage Co.	50	—	—	
„ 23. G. Pearson sent cheque in payment of his account.				
„ 25. Stock on hand valued at	720	—	—	

Take out a Trial Balance and draw up Trading and Profit and Loss Accounts for the period, and a Balance Sheet as at 25th July.

Answer : Trial Balance totals, £2,444 3s. ; Gross profit, £50 10s.
Net profit, £45 18s. 6d. ; Balance Sheet totals, £2,359 11s. 6d.

No. 4

From the following particulars prepare a Statement showing how the Cash Book balance and the Pass Book balance are reconciled.

Cash Book balance, 31st July	£857 11s. 2d.
Pass Book balance, 31st July	1,821 4s. 3d.

Cheques drawn prior to 31st July, but not presented at that date—

W. Cartwright	£10.
K. Peterson	£14 17s. 2d.
G. Thomson	£624 2s. 1d.
F. Hilary	£327 6s. 7d.
M. Johnson	£167 4s. 2d.

Country cheques paid into the bank on the 31st July, but not collected until 2nd August—

F. Hoare	£62 1s. 4d.
R. Dodgson	£27 6s. 3d.
A. Woodward	£87.

Bank charges and interest to 31st July, not entered in the Cash Book, £3 9s. 4d.

SUPPLEMENTARY EXERCISES BASED ON CHAPTERS I TO VIII

(For answers to following exercises, see page 222)

No. 1

On 1st December, Messrs. Bright & Co. owed Messrs. Watts & Co. £43 5s., which was paid by cheque on 5th December.

On 9th December, Messrs. Bright & Co. ordered goods value £36 7s. 6d. from Messrs. Watts & Co., who despatched them by rail on 15th December. On 19th December, Messrs. Bright & Co. returned by rail part of the above goods as defective, and on 27th December were allowed £6 2s. by Messrs. Watts & Co.

Messrs. Bright & Co. have a monthly account with Messrs. Watts & Co., paying for all goods bought, in the month following delivery.

The above transactions were the only ones that took place between the two firms during December.

State what documents would pass between the parties relating to the above transactions, and show how Messrs. Bright & Co.'s account would appear in Messrs. Watts & Co.'s Ledger after balancing on 30th December.

No. 2

Your firm, J. Harris & Co., receives the following statement—

STATEMENT

High Street,
Willcombe,
30th September, 19..

To MESSRS. J. HARRIS & CO.,
WILLCOMBE.

In Account with MESSRS. RANN & SONS, LTD.,
Wholesale Merchants.

						£	s.	d.
19..								
Sept.	1.	To Balance	.	.	.	25	9	0
"	8.	" Goods (Invoice No. 64)	.	.	.	17	19	0
"	15.	" " (" " 91)	.	.	.	9	10	0
"	22.	" " (" " 184)	.	.	.	18	6	0
						71	4	0
"	18.	By Credit Note	.	.	.	£10	6	0
"	22.	" Cash	.	.	.	25	9	0
						35	15	0
						£35	9	0

Show the Ledger a/c of Rann & Sons, Ltd., for the month of September, as it would appear in your firm's Ledger, assuming this statement to be correct.

No. 3

From the following particulars, show the Cash Book (Bank and Discount columns) of R. Freshman.

In entering up the Cash Book, show clearly the name of the account to which you would post each item.

		£	s.	d.
Jan.	3. Bank overdraft	37	10	—
„	4. Received cheque £16 12s. 6d., in payment of F. Beale's account of £17 10s., less 5% cash discount.			
„	5. Paid cheque to Landlord for rent	23	—	—
	Drew cheque for Petty Cash	5	—	—
	Paid C. John's account for £18 6s. 8d., deducting 2½% cash discount.			
„	6. Bank charges to 31st December, 19.. . . .	3	5	—
	Drawings by cheque for private purposes	20	—	—
„	7. Received cheque £33 5s., in payment of C. Raymond's account of £35, less 5% cash discount.			
	Paid F. Jacque's account of £23 10s. by cheque, deducting 5% cash discount.			
„	8. Paid cheque to Yorkshire Coal Co., Ltd., for coal and coke	3	18	—
„	9. Drew cheque and paid wages	6	10	—
	Paid cash, proceeds of sales, into bank	86	4	2
	Paid cheque to Metro. Electricity Co., for electric light account	3	2	6

No. 4

A. Smallman uses a Cash Book with Bank and Discount columns. On 9th October, 19.., the Bank Account showed an overdraft of £26 3s. 2d. Insert this balance.

From the following information show how the entries would appear in the Cash Book for the week ending 14th October, 19..

In making your entries name in each case the account where the "contra" entry would appear.

The Bank paying-in-slips for the week showed—

Oct.	9.	£134 9s. 6d. (cash sales £86 10s., and cheque from J. Robbins £47 19s. 6d., in payment of his account of £50 10s.).
„	10.	£96 2s. 3d. (cash sales).
„	11.	£157 6s. 4d. (cash sales £71 3s., and cheque from L. Rosen £86 3s. 4d.).
„	12.	£87 3s. (cash sales).
„	13.	£92 7s. 8d. (cash sales £69 4s. 6d., and cheque from J. Jonathan £23 3s. 2d., in payment of his account, £1 4s. 5d. discount having been deducted).
„	14.	£46 9s. (cash sales).

Cheque book counterfoils showed—

- Oct. 9. No. 133468. £149 3s. (J. Cumberland, in payment of his account).
 „ 10. No. 133469. £74 2s. 11d. (R. York—£3 19s. 1d. discount having been deducted).
 „ 11. No. 133470. £40 3s. 9d. (R. Tanner, Landlord, for rent).
 „ 12. No. 133471. £19 5s. (R. Weather, for cash purchase).
 „ 13. No. 133472. £14 6s. (X L Garage, Ltd., for monthly petrol, oil and repairs account).

Balance the Cash Book as at 14th October, 19.., and bring down the balance.

No. 5

According to the Bank Statement of 31st December, 19.., the business Bank Account of S. Merryweather showed a credit balance of £267 3s. 5d.

From the following information show by means of a Bank Reconciliation Statement the balance of the business Bank Account according to S. Merryweather's Cash Book on the same date.

- (i) The following cheques were drawn on 31st December—

No. AO27652—W. Grantham . . .	£46 3s. 10d.
No. AO27653—L. York . . .	£31 7s. 4d.
No. AO27654—Petty Cash . . .	£19 9s. 10d.

The cheque for Petty Cash and all other cheques drawn prior to 31st December had already been presented for payment.

- (ii) The bank paying-in slip for 31st December showed £82 6s. 2d., which amount was not yet credited to the account.
 (iii) The bank had charged £1 10s. for running the account.

No. 6

R. Ladburne is a commission agent. From the following particulars select the items to enable you to compile an account to show his profit for the half-year ended 30th June, 19...

	£	s.	d.
Office heating, lighting, and cleaning	5	8	4
Office stationery	4	3	10
Postages and telegrams	19	4	2
Telephone	15	11	6
Office furniture	30	—	—
Travelling expenses	98	3	6
Wages	65	—	—
Commission received for half-year	596	8	9
Commission still due for half-year	67	2	3
Advertising	29	5	8
Rent and Rates	42	10	—
Drawings	350	—	—

No. 7

On March 1st, 19.., R. Walford had the following assets and liabilities—

Petty Cash, £10; bank overdraft, £23 9s. 2d.; stock, £286 18s. 9d.; furniture and fixtures, £110; motor vans, £60. Debtors—S. May, £32 3s. 4d.; J. Wills, £14 15s. 2d.; Creditors—Supplies, Ltd., £86 3s. 9d.; J. Gray, £23 1s. 6d.

Find Walford's capital and enter the necessary balances in his Cash Book and Ledger.

Record the following transactions in the proper subsidiary books and post the items to your Ledger. Extract a Trial Balance and prepare Trading and Profit and Loss a/cs, and a Balance Sheet as on 6th March, 19...—

- Mar. 1. Purchased stock-in-trade from Supplies, Ltd., £75 8s., and paid their account as at March 1st by cheque, less 5% cash discount.
- „ 2. Received cheque from S. May in settlement of his account and paid into bank.
Sold to J. Wills, goods on credit, £6 5s. 8d.
- „ 3. Paid from Petty Cash for sundry repairs to motor van, £1 12s. 10d.
Paid by cheque to Mount Garages, petrol and oil account, £5 4s. 9d.
- „ 4. Purchased from J. Gray, 4 cases of goods priced at £4 7s. 1d. per case, less 20% trade discount and 5% for cash in one month.
- „ 5. Paid from Petty Cash: postages, 18s. 4d.; sundry office expenses, 8s. 3d.
Returned to J. Gray, one case of goods purchased on the 4th instant.
- „ 6. Cash sales paid into bank, £178 18s. 2d.
Drew cheque to pay wages, £8 5s.
Drew cheque to restore Petty Cash balance to £10.

Stock on hand on 6th March, was valued at £340.

No. 8

On July 1st, 19.., the position of D. Evans's business was as follows—

Cash in office, £32 4s. 6d.; Cash at bank, £329 18s.

Stock, £475 10s.; Fittings and fixtures, £80.

T. Marks, £22 6s. 8d. (Dr.); Freehold premises, £800.

Having calculated D. Evans's capital, enter it and the foregoing balances in their proper accounts and also post the following through the appropriate subsidiary books.

- July 1. Drew cheque to pay wages, £5 15s.
Drew cheque for personal expenses, £10 10s.
- „ 2. Banked cash received for cash sales, £13 4s. 9d.
- „ 4. Purchased goods from R. Naylor, £43 5s.
Paid to bank, cheque received from T. Marks in settlement of his account, £21 15s. 6d.

- July 5. Sold goods to K. Atwell, £23 7s.
 Received invoice from Builders' Ltd., for extensions to
 business premises, £82 10s.
 „ 7. Paid R. Naylor's account by cheque, deducting 5% cash
 discount.
 „ 8. Paid sundry expenses from office cash :
 Carriage . . . 12s. 6d.
 Sundry expenses 14s. 9d.
 Extract a Trial Balance as on 8th July, 19...

No. 9

On 25th June, 19..., the accounts of J. Raider's Ledger showed the following balances—

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Capital				843	14	—
Drawings	96	—	—			
Wholesale Supply Co.				86	5	—
Sales				1,294	8	—
Purchases	993	9	—			
Stock	410	3	6			
Furniture and Fittings	350	—	—			
Petty Cash	20	—	—			
Cash at Bank	210	2	6			
Rent and Rates	58	5	—			
Office Expenses	37	4	6			
Wages	49	6	—			
Discount				10	4	6
Sundry Expenses	10	1	—			
	<u>£2,234 11 6</u>			<u>£2,234 11 6</u>		

Insert the above balances in your Ledger and then pass the following transactions through the proper books and post to the Ledger. Extract a Trial Balance at 30th June, 19... Balance the accounts and prepare a Trading Account and Profit and Loss Account for the quarter ended 30th June, 19..., and a Balance Sheet as at that date.

- June 25. Paid Wholesale Supply Co. the amount of £ s. d.
 their account by cheque, less 5% cash
 discount.
 „ 26. Purchased from Wholesale Supply Co. goods
 £72 10s., less 20% trade discount.
 „ 27. Paid sundry expenses from Petty Cash . 2 7 6
 Paid rent by cheque . 47 — —
 „ 28. Made refund on a cash sale from Petty Cash . 7 9
 „ 29. Purchased new shop fittings—cheque . 12 10 —
 Withdrew for private expenses—cheque . 20 — —
 „ 30. Paid from Petty Cash—
 Wages 4 15 6
 Office expenses 1 3 6
 „ 30. Cash sales to date, paid into bank . 702 8 9
 „ 30. Refunded payments from Petty Cash by
 cheque, to restore balance to £20.

Stock on hand on 30th June, 19..., £376 4s.

No. 10

On October 2nd, 19.., S. Rackley started business by transferring £450 from his private bank account to a business bank account and borrowing £250 from W. Lender at 5% per annum interest, which was also paid into bank.

During the month of October the following transactions took place. Pass these transactions through the proper subsidiary books and post to Ledger. Extract a Trial Balance and prepare Trading Account, Profit and Loss Account, and a Balance Sheet as on 31st October, 19..

- Oct. 3. Purchased the business of F. Lennell as a going concern at the following valuations—
 Stock-in-Trade, £267;
 Furniture and Fittings, £110;
 Goodwill, £200;
 and paid by cheque.
- „ 4. Decided to write down furniture and fittings by £30.
- „ 5. Purchased on credit new fittings from Shop Fitters, Ltd., £58.
- „ 6. Paid one month's rent in advance by cheque, £18.
- „ 7. Drew cheque for petty cash, £10.
- „ 9. Received invoice for goods purchased from Sellers & Co., £96 10s. 6d.
- „ 13. Paid cheque for printing advertising leaflets, £7 9s.
- „ 14. Cash sales to date paid into bank, £76 15s. 3d.
- „ 17. Purchased 8 cases of goods from Sellers & Co. at £10 per case, less 20% trade discount.
- „ 20. Received invoice from Decorators, Ltd., for re-painting and re-decorating premises, £36 10s.
- „ 21. Cash sales for week paid into bank, £106 7s. 9d.
- „ 24. Returned one case of goods purchased on 17th October, to Sellers & Co.
- „ 25. Cash sales for week paid into bank, £110 9s.
- „ 31. Petty Cash expenses for month—
 Postages, 10s.;
 Stationery, £4 9s. 3d.;
 Sundries, £2 17s. 6d.
 Drew cheque to restore Petty Cash to £10.
 Drew cheque for private expenses, £35.
- Stock on hand on 31st October was valued at £190.

No. 11

Rule a Petty Cash Book, providing separate columns for Carriage, Postages and Telegrams, Office Expenses, Sundry Expenses, and enter therein the following items—

		£	s.	d.
May	16. Cash in hand (Imprest amount)	10	—	—
„	16. Paid carriage on parcels by rail		12	6
„	17. Purchased postage stamps	3	10	—
„	17. Paid for telegrams		3	6
„	18. Paid for insertion of vacancy advertisement in <i>Daily Telegraph</i>		10	6

		£	s.	d.
May	19. Paid office window cleaners		3	—
„	19. Refunded (on cash sale) to H. Sloan, a customer	1	5	—
„	20. Paid carrier's account	2	1	3
„	20. Paid for sundry office requisites		4	2
„	21. Paid for periodicals and newspapers		2	—
„	21. Postage on parcels		7	9

Balance the Petty Cash Book as on 21st May, 19.., on the assumption that it is kept on the Imprest system and that the necessary refund is made on that date.

Post your Petty Cash Book to the necessary Ledger accounts.

No. 12

On 2nd June, 19.., the position of H. Elstree was as follows—

Petty cash, £10; Cash at bank, £57 8s. 9d.; Stock, £207 10s. 3d.; Furniture, fittings and equipment, £120. Creditors: S. Raine, £47 9s. 4d.; Wholesalers, Ltd., £124 3s. 7d.

Find Elstree's capital and enter the balance in the Ledger. Pass the following transactions through the proper Day Books, post to the Ledger, and extract a Trial Balance as on 7th June, 19..

		£	s.	d.
June	2. Paid office expenses from Petty Cash	1	2	8
„	2. Paid S. Raine his account, less 5% cash discount, and bought from him goods value £38, less trade discount of 20%.			
„	3. Paid cheque to replace broken windows	2	4	—
„	4. Arranged overdraft at the bank up to £150			
„	4. Paid Wholesalers, Ltd., the amount of their account, less 5% cash discount.			
„	4. Paid out of Petty Cash for repairs to typewriter		10	6
„	5. Bought from Wholesalers, Ltd., goods at a net price of	87	10	9
„	6. Paid wages by drawing cheque on bank	10	—	—
„	7. Cash sales for week paid into bank	96	10	8
„	7. Sundry expenses paid out of Petty Cash		7	2
„	7. H. Elstree drew cheque as his weekly salary	6	—	—

No. 13

A. Battle has a small business and finds his profit *each month*. He transfers his sales, purchases, returns, and expenses in weekly totals to the relevant accounts.

Up to and including 23rd December, 19.., the nominal accounts for the month of December showed the following balances—

	£	s.	d.
Sales	172	4	—
Purchases	129	6	—
Postages	10	9	—
Stationery	6	4	—
Advertising	8	4	—

Open the accounts in the Ledger and post balances to them.

On 30th December, 19..., the sales for the preceding week were—

	£	s.	d.
Cash sales	59	10	—
Sales on credit	1	19	—

Purchases for the week were £39 17s.

The Postages Book showed that for the *month* ended 30th December, 19..., stamps to the value of £11 18s. had been *used*. The Petty Cash Book totals for the week ending 30th December were—

	£	s.	d.
Postage stamps	2	10	—
Stationery	2	15	—

The cheque book counterfoils showed a cheque paid for advertising, amounting to £4 16s.

(a) From the above information complete the above accounts in the Ledger (only the above accounts are required).

(b) Balance the above accounts and prepare A. Battle's Trading a/c and Profit and Loss a/c for the month ended 30th December, 19...

Stock on 1st December, 19..., was valued at £39 10s.

Stock on 30th December, 19..., was valued at £46 2s.

No. 14

The following balances appeared in the Ledger of S. Trevor, a retailer, on 1st September, 19...—

	£	s.	d.
Sales	687	8	5
Purchases	734	4	9
Capital (1st July, 19...)	2,516	2	5
Drawings	78	—	—
Carriage inwards	15	2	3
Postages	1	17	2
Wages and salaries	44	10	—
Sundry expenses	3	7	2
Light and heating	4	9	—
Office expenses	10	3	4
Stock (1st July, 19...)	298	5	—
Rates and taxes	29	9	6
Freehold premises	1,750	—	—
Furniture and fittings	210	—	—
Creditors : R. Powell	98	16	6
S. Spruce & Sons	30	3	8
Supplies, Ltd.	97	4	7
Petty cash	5	—	—
Cash at bank	245	7	5

Enter the above balances in the Ledger, and from the following particulars of transactions for September, 19..., show the completed accounts as they would appear on 30th September, 19... (N.B.—Ledger accounts *only* are required ; Cash and/or Petty Cash Books are *not* required).

	£	s.	d.
Cash sales for the month, paid into bank	324	4	2
Petty Cash Book showed the following totals for month—			
Postages		9	5
Office expenses	1	3	9
Sundry expenses	2	1	—
Cheques drawn and met by the bank in September—			
Spruce & Sons	30	3	8
Supplies, Ltd.—on account	40	—	—
Petty Cash (refund)	3	14	2
S.M. Gas Co. (for gas supplied)	2	4	7
L. Rennie (for secondhand typewriter)	24	—	—
Self (drawings)	40	—	—
Cash (for wages and salaries)	22	5	—

Balance the accounts and prepare Trading and Profit and Loss a/cs for the quarter ended 30th September, 19.., taking into account the following—

Stock-in-hand 30th September, 19.., valued at £286 3s. ;
 Depreciate furniture and fittings by £2 15s.
 (N.B.—A Balance Sheet is *not* required.)

No. 15

The position of W. A. Goodacre's business on 1st September, 19.., was as follows—

Cash at bank, £126 7s. 3d. ; Petty Cash, £10 ; Stock, £309 9s. 4d. ; Furniture and equipment, £200.

Debtors : S. Bonsall, £14 8s. 2d. ; G. Clear, £29 7s. 9d.

Creditors : Wholesale Suppliers, Ltd., £134 9s. 4d.

Find Goodacre's capital, and enter the balances as at 1st September, in his Ledger.

The following transactions took place in September—

<i>Goods invoiced to Customers—</i>		£	s.	d.
Sept. 10.	S. Bonsall	12	7	2
„ 17.	R. Gallard	4	2	1
„ 25.	G. Clear	21	3	—
<i>Invoices received for goods purchased—</i>				
Sept. 18.	G. Selby & Son—goods for re-sale	52	5	8
„ 27.	Wholesale Suppliers, Ltd.—goods for re-sale	114	3	3
„ 30.	R. Ledward—new office furniture	25	10	—
<i>Cheques and Cash received and paid into bank—</i>				
Sept. 4.	Cash sales	112	8	2
„ 8.	S. Bonsall (cheque)	14	8	2
„ 11.	Cash sales	92	4	1
„ 12.	G. Clear (cheque)	29	7	9
„ 18.	Cash sales	102	3	2
„ 25.	Cash sales	99	4	6

Cheques drawn—

		£	s.	d.
Sept.	1. No. AY/702851, R. Hay, Landlord, for rent	21	10	—
„	1. No. AY/702852, Morcombe U.D.C., for rates	46	15	5
„	15. No. AY/702853, Wholesale Suppliers, Ltd.	134	9	4
„	20. No. AY/702854, Carter Paterson, for carriage on sales	6	2	3
„	22. No. AY/702855, W. Stanton—cash purchase of goods for re-sale	23	3	9
„	30. No. AY/702856, Petty Cash	7	19	3

The Petty Cash Book contained columns for Office Expenses, Postages, and Sundry Expenses. The totals of these columns on 30th September, were as follows—

	£	s.	d.
Office expenses	2	9	4
Postages	1	6	3
Sundry expenses	4	3	8

Stock on hand on 30th September was valued at £190.

Enter the above transactions in the appropriate Day Books and Ledger a/cs. Prepare Trial Balance, with Trading a/c, Profit and Loss a/c, and a Balance Sheet as on 30th September.

No. 16

From the following particulars relating to a boot and shoe repair business, select those necessary for the purpose of finding the gross profit, and prepare an account to show that profit.

	£	s.	d.
Receipts from repairs	1,068	—	—
„ from sales of sundries	142	—	—
Purchases of leather	486	—	—
Stock of leather (1st July, 19..)	67	—	—
„ „ (31st December, 19..)	75	—	—
Machinery and Tools	194	—	—
Rent and Rates (shop $\frac{1}{4}$, workshop $\frac{3}{4}$)	48	—	—
Drawings of Proprietor	170	—	—
Petty Cash expenses	21	—	—
Purchase of rubber soles and heels	278	—	—
Stock of rubber soles and heels (1st July, 19..)	47	—	—
„ „ „ (31st December, 19..)	52	—	—
Purchase of sundries for re-sale	98	—	—
Stock of sundries for re-sale (1st July, 19..)	18	—	—
„ „ „ (31st December, 19..)	20	—	—
Nails, brads, segs, etc., used for repair work	11	—	—
Lighting and heating (shop $\frac{1}{4}$, workshop $\frac{3}{4}$)	10	—	—
Power	12	—	—

No. 17

From the following information, extracted from the records of L. Jones, select the items you think necessary, and from them prepare Trading and Profit and Loss Accounts relating to the half-year ended 30th September, 19.., and show how Jones's Capital Account would appear after balancing at that date.

	£	s.	d.
Capital (1st April, 19..)	1,718	10	—
Drawings	210	—	—
Sales	3,762	15	7
Sales returns	62	3	3
Purchases	2,519	15	8
Petty Cash in hand	20	—	—
Bank overdraft	76	6	9
Stock (1st April, 19..)	627	2	9
Stock (30th September, 19..)	759	6	9
Debtors	510	10	10
Creditors	496	13	6
Machinery	827	—	—
Depreciation on machinery	43	—	—
Furniture and fittings	150	—	—
Carriage on purchases	47	18	1
Carriage on sales	72	9	5
Light and heat	10	4	—
Workshop wages	426	8	—
Workshop power	36	7	8
Office salaries	208	—	—
Office expenses	47	18	2
Rent and rates	186	5	—
Advertising	49	3	—

No. 18

From the following information extracted from the books of A. Speed, cycle dealer, construct his Trading and Profit and Loss Accounts for the half-year ended 31st March, 19.., and a Balance Sheet at that date—

Capital, £3,472 12s.

Drawings, £260.

Sundry creditors, £261 5s.

Stocks (Cycles), £172; (Spare parts and sundries), £262 3s.

Sales (Cycles), £685 12s.; (Spare parts and sundries), £146 2s.

Purchases (Cycles), £506; (Spare parts and sundries), £748 7s.

Receipts from repairs, £972 4s.

Electric power, £6 15s.

Heat and light (workshop), £3 9s.; (Shop and office), £2 6s.

Rates (workshop), £24 6s.; (Shop and office), £16 4s.

Wages (workshop), £130; (Shop and office), £117.

Postages, £3 10s.

Cash in hand, £30.

Cash at bank, £197 13s.

Freehold buildings, £2,800.

Office and shop expenses, £10 8s.

Workshop equipment, £260.

Discount received, £12 6s.

Stocks remaining *unsold* at 31st March (Cycles), £205 10s.; (Spare parts and sundries), £320 6s.

ANSWERS TO SUPPLEMENTARY EXERCISES

Exercise No.	Trial Balance Totals			Gross Profit			Net Profit			Balance Sheet Totals			
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	
1													Messrs. Bright & Co.'s A/c—
2													Dr. balance, £30 5s. 6d.
3													Rann & Sons, Ltd. A/c—
													Cr. balance, £35 9s.
													Cash Book: Cr. balance,
													£6 7s. 10d. (overdraft)
													Discount: Dr. £2 12s. 6d.
													Cr. £1 12s. 8d.
4													Cash Book: Dr. balance,
													£290 13s. 11d.
													Discount: Dr. £3 14s. 11d.
													Cr. £3 19s. 1d.
5													Cash Book: Dr. balance,
													£270 8s. 5d.
6							384	4	—				
7	683	1	—	144	3	1	140	5	1	630	6	5	
8	1,860	4	2										Capital A/c: Cr. £1,739 19s. 2d.
													(1st July, 19..)
9	2,912	13	9	856	19	—	715	8	3	1,501	2	3	
10	1,249	12	10	64	2	—				876	6	3	Net Loss, £36 14s. 7d.
11													Refund to restore imprest,
													£8 19s. 8d.
													P/C Book analysis column—
													Totals:
													Carriage, £2 13s. 9d.
													Postages and telegrams,
													£4 1s. 3d.
													Office expenses, 4s. 2d.
													Sundries, £2 os. 6d.
12	473	13	—										Capital A/c: Cr. £223 6s. 1d.
													(2nd June, 19..)
													P/C balance, £7 19s. 8d.
													Cash Book (bank): Cr. £27 5s. 10d.
													(overdraft)
13				71	2	—	37	5	—				
14				250	3	7	125	8	8				
15	1,190	14	3	134	10	2	52	3	3	799	5	4	Capital A/c: Cr. £555 3s. 2d.
													(1st September, 19..)
16				296	10	—							
17				759	6	11	185	7	4				Capital A/c: Cr. £1,693 17s. 4d.
18				476	14	—	339	12	—	3,813	9	—	

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